DOCUMENT RESUME

ED 206 849 CE 029 934

TITLE The Implementation of the Targeted Jobs Tax Credit. Report No. 3.
INSTITUTION Ohio State Univ., Columbus. Mershon Center.
SPONS AGENCY Employment and Training Administration (DOL), Washington, D.C. Office of Program Evaluation.
REPORT NO MEL-81-09
PUB DATE May 81
GRANT DOL-24-39-79-01
NOTE 102p.

EDRS PRICE MF01/PC05 Plus Postage.
DESCRIPTORS Administrator Attitudes; Cooperative Education; *Disadvantaged Youth; Educational Vouchers; Employer Attitudes; *Employment Programs; Federal Programs; Job Development; Job Placement; *Program Effectiveness; *Program Implementation; *Tax Credits; Youth Employment
IDENTIFIERS *Targeted Jobs Tax Credit

ABSTRACT

A study was conducted to determine the effectiveness of the Targeted Jobs Tax Credit (TJTC) as observed between July 1980 and March 1981 in 25 areas throughout the United States. Findings include the following: (1) TJTC has not worked as envisioned as a self-marketing effort by vouchered individuals and new hires by employers; most employers are participating in TJTC through retroactive certifications of their current employees rather than by new TJTC hires; (2) vouchering activity and employer participation in TJTC have been increasing over time, although recently these activities have fallen as resources have declined; (3) vouchering and employer participation vary randomly from site to site; (4) four types of organizations have been most active in marketing TJTC employers: Private Industry Councils, private firms assisting employers in obtaining certifications, National Alliance of Business metros, and state and local employment services offices; (5) about half of the participants in the TJTC program are cooperative education students, and about 90 percent of the vouchers go to the targeted groups--economically disadvantaged youth and cooperative education students. Some of the reasons found for TJTC performance problems include employers' beliefs that the tax savings are not worth the trouble of altering their hiring practice, and fear of government involvement; and problems with implementation and enthusiasm for the program by vouchering agencies. It was concluded that TJTC has not been implemented by the delivery system and used by employers in the way intended by its designers, but that it would be premature to draw from this that targeted employment tax credits are in all cases ineffective means for increasing employment opportunities for targeted individuals. (KC)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED206849

REPORT MEL 81-09
GRANT No. 24-39-79-01

THE IMPLEMENTATION OF THE TARGETED JOBS TAX CREDIT

REPORT NO. 3

MAY 1981

PREPARED FOR
OFFICE OF PROGRAM EVALUATION
EMPLOYMENT AND TRAINING ADMINISTRATION
U.S. DEPARTMENT OF LABOR
WASHINGTON, D.C. 20213

PREPARED BY
THE OHIO STATE UNIVERSITY
MERSHON CENTER CETA STUDY
COLUMBUS, OHIO 43201

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
✓ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

CE 029939

This report was prepared under a grant from the Office of Program Evaluation of the Employment and Training Administration, U.S. Department of Labor. Organizations undertaking such projects under government sponsorship are encouraged to state their findings and express their judgments freely. Therefore, points of view or opinions stated do not necessarily represent the official position of the Department of Labor.

TABLE OF CONTENTS

Section		Page
Prefatory Note		ii
Executive Summary		iv
I. Introduction		
	A. Nature of the Study	1
	B. TJTC Overview	5
	C. Evaluating Employment Tax Credits	9
	D. Assumptions and Expectations	13
II. Patterns of Implementation and Performance		
	A. Overview	18
	B. The Evolution of TJTC Implementation and Performance	21
	C. Delivery System Topography	31
	D. Employer Response to TJTC	41
	E. Types of Participants Served	49
III. Assessment and Explanations of TJTC Performance		
	A. Introduction	59
	B. Delivery System Response	59
	C. Employer Response	63
	D. Effects of Implementation on Performance	67
	E. Summary Assessment	80
IV. Implications		
	A. Introduction	82
	B. Adjustments for Producing Desired Performance	83
	C. Conclusion	89

PREFATORY NOTE

This is the third report in a series that focuses on the implementation of the Targeted Jobs Tax Credit (TJTC) authorized by the Revenue Act of 1978. The first report presented a basic map of TJTC experience in twenty-five locations as of roughly June 30, 1980. The second report updated this basic map on the basis of developments through the end of October 1980, and began to assess TJTC's utility as a labor market intervention by describing and explaining employer response to the tax credit. A brief supplementary memorandum was written in November 1980 on the implementation and experience of the WIN Tax Credit in the same twenty-five locations, and the relationship between WIN and TJTC. Another supplementary survey summarized TJTC's status in fifteen locations as of roughly February 1981. This, the third full report, draws from the findings in previous reports and memoranda as well as field research and consultations in February and March 1981. It maps TJTC's implementation structure in detail, describes the evolution of this structure, assesses the effects of implementation on performance, and examines TJTC's ability to alter employer hiring, firing, and retention decisions. A final report is planned for late 1981.

This project is supported by a grant (24-39-79-01) from the Office of Program Evaluation of the Employment and Training Administration of the U.S. Department of Labor and by resources of the Mershon Center of Ohio State University. The research is conducted by members of The Ohio State University CETA Study (Director: Randall B. Ripley; Associate Director: Grace A. Franklin; Project Associates: Donald C. Baumer (Smith College), David S. Ford (Rutgers University), Jeffrey E. Golon, Marshall R. Goodman, Debra S. Gross-Sidlow, William J. Lydon (Mathematica Policy Research), Anton J. Naess,

Michael G. O'Loughlin (Salisbury State College), Patrick E. Shields, L[illegible] Smith, William C. Strangfeld, Carl E. Van Horn (Eagleton Institute, Rutgers University), and Richard L. Wright; (Support Staff: Scott A. Reuter). Primary responsibility for drafting this report rested with Smith, with major inputs from Wright and the Project Director. The Project Director takes final responsibility for the contents of the report.

The Director, Associate Director, and Project Associates are doing continuing field work in twenty-five Prime Sponsorship areas and the 17 states in which they are located throughout the United States. Some discussions are also held from time to time with representatives of national governmental and private organizations in Washington, D.C.

We are grateful to many individuals in our twenty-five sites, individuals in state Employment Service offices, many DOL employees, administrators in many of the several TJTC vouchering agencies, employers knowledgeable about the tax credit, executives in private firms that are assisting employers in taking advantage of the tax credit, and representatives of a variety of Washington-based national organizations. Many have participated in long discussions with us. Others have provided various kinds of essential data.

EXECUTIVE SUMMARY

This report summarizes some of the most important features of the implementation and performance of the Targeted Jobs Tax Credit (TJTC) as observed between July 1980 and March 1981 in twenty-five areas throughout the United States. The report concludes that TJTC has not been implemented by the delivery system and utilized by employers in the way intended by its designers, but that it would be premature to draw from this that targeted employment tax credits are in all cases ineffective means for increasing employment opportunities for targeted individuals.

A. Patterns of Implementation and Performance

Basic Findings

1. TJTC's design envisions a performance pattern of self-marketing by vouchered individuals, and "new" TJTC hires by employers. However, this performance pattern has not occurred.

2. Many Employment Service offices and CETA Prime Sponsors are skeptical of TJTC and reluctant to use it extensively as a placement tool.

3. Most employers are participating in TJTC through retroactive certifications of their current employees rather than by making "new" TJTC hires.

The Evolution of Performance

4. Over time, vouchering activity and employer participation in TJTC have been increasing, and TJTC has been achieving the certification goals set for it by policy makers. The FY1980 goal of 250,000 certifications was reached in June 1980. As of December 31, 1980, almost 800,000 vouchers and 410,000 certifications had been issued since the beginning of the program.

5. Changes in TJTC performance in our sites since October 1980 have been modest but generally reflect lower interest and activity on the part of implementing agencies and organizations, as well as reduced resources. Marketing for TJTC has been reduced or eliminated in about half the sites, and Employment Service vouchering has dropped in about one third of the sites.

6. In the sites included in this study, vouchering and marketing by the delivery system are declining in part because employers have continued to participate in TJTC primarily by way of retroactive certifications, which do not improve the placement rates of the vouchering agencies. However, national data show that vouchering has increased steadily, and continues to increase, for the nation as a whole.

Delivery System Topography

7. The delivery system for TJTC can be best characterized as one of random entrepreneurship, in the sense that some agencies in some sites are implementing the program aggressively, some weakly, and some almost not at all.

8. The majority of Employment Service offices in our sites are vouchering TJTC eligibles only when there is a high likelihood of placement, or when either employers or clients request a voucher. The vouchering strategies of CETA Prime Sponsors are divided evenly between blanket vouchering, selective vouchering, and focusing on retroactive certifications.

9. Four types of organizations have been most active in marketing TJTC to employers: Private Industry Councils, private firms assisting employers in obtaining certifications, National Alliance of Business (NAB) metros, and state and local Employment Services offices.

Employer Response

10. Of the approximately 300,000 certifications issued between March 1979 and the end of FY1980, about 150,000 were for students in cooperative education programs. It is estimated that, of the remaining certifications, 95,000 were retroactive, and 55,000 were "new" TJTC hires. There is some evidence to indicate that about half of the latter certifications involved at least a marginal alteration in employer hiring practices.

11. Most of the employers participating in TJTC normally hire from TJTC target groups and have significant numbers of TJTC eligibles already in their labor force. The biggest users of TJTC appear to be the major hotel, fast food, grocery, and retail sales chains.

Types of Participants Served

12. Seventy percent of TJTC vouchers and almost ninety percent of TJTC certifications have been for the two youth target groups--economically disadvantaged youth, and students in cooperative education programs.

13. The most active vouchering agencies are the Employment Service, CETA Prime Sponsors, and cooperative education agencies, with over 90% of all vouchers being issued by these three agencies.

14. There has been little variation over time in either the types of clients served by TJTC, or the distribution of vouchering and certification activity across the designated vouchering agencies.

15. There is some evidence to suggest that in many cases, because of client resistance, TJTC vouchers are not being used by TJTC eligible clients to whom they have been issued as a tool to develop jobs.

B. Assessment and Explanation of TJTC Performance

Barriers to a More Positive Employer Response

1. Many employers believe that the tax savings from TJTC are not large enough to make it profitable for them to hire from TJTC target groups. In the employers' view, the tax savings are outweighed by the revenues lost from the lower productivity of TJTC eligibles.

2. Fear of involvement with the government is the single most important reason why many employers refuse to participate in TJTC even by way of retroactive certifications.

3. It is very difficult for employers to alter their hiring practices so as to take advantage of TJTC. Employers fear that screening job applicants for TJTC eligibility may be a violation of fair hiring laws, employers do not want to commit personnel time to such screening, and often they simply do not want their decisions influenced by a tax credit.

Barriers to More Effective Implementation

4. Many of the vouchering agencies are reluctant to implement TJTC because they believe that the small number of certifications being obtained do not warrant the staff time required to voucher participants and market the tax credit.

5. The large number of agencies involved in TJTC make coordination difficult to achieve. The uncoordinated nature of the TJTC delivery system leads to a reduced sense of responsibility for TJTC on the part of the various vouchering agencies, and to a lack of uniformity in the vouchering forms and procedures employers face when they decide to participate in TJTC.

6. Personnel in the vouchering agencies at the organizational level where vouchering and job development are done have not been given strong incentives for aggressively implementing TJTC.

Effects of Implementation on Performance

7. TJTC has been achieving the certification goals set for it by policy makers at the national level. TJTC certifications exceeded the planned 250,000 level for FY1980 by over 50,000. The goal for FY1981 is 300,000 certifications, and the performance in the first quarter of FY81 suggests this goal will be achieved also unless there is a significant change in employer utilization of the tax credit.

8. Weak implementation of TJTC has hurt TJTC's performance, but it cannot be concluded that expanded effort by the delivery system could raise TJTC performance to substantial levels of "new" TJTC hires. Even in those sites where implementation was quite strong, retroactive certifications were nevertheless a large proportion of the certifications issued.

9. The posture taken by local Employment Service offices toward retroactive certifications affects the level of retroactive certifications they issue. Achievement of certification goals appears to require either active marketing of retroactive certifications, or at least willingness to respond to employer requests for them.

10. The most successful vouchering strategy, in terms of being able to achieve a relatively low level of retroactive certifications and yet a relatively high level of certification goal achievement, is vouchering all TJTC eligibles so that they can use the voucher during job search. Performance is also improved in this sense if TJTC is integrated into other program and placement activities.

11. TJTC performance is affected by the types of groups involved in marketing and implementing it in a locality.

12. Those sites that used a number of approaches to market TJTC were more successful in achieving certification goals than those sites that used no approaches or only a few approaches. The most effective approaches, in terms of generating certifications, appear to be those that involve direct contact with employers or accountants rather than mass media.

13. The percentage of certifications that are retroactive is relatively high, and the level of certification goal achievement is relatively low, in those sites where unemployment is either very low or very high.

C. Implications

1. Because TJTC has not produced its expected pattern of delivery and employer utilization--self-marketing by vouchered clients, and "new" TJTC hires by employers--conclusions cannot be reached about whether this performance pattern would produce its desired impact of improving target group employment.

2. Alone, adjustments in either the delivery system or the tax credit's design are unlikely to produce the desired pattern of delivery and employer utilization.

3. The desired pattern of performance might be produced by both eliminating the retroactive certification option and targeting TJTC administrative funds for use in promoting self-marketing by vouchered TJTC participants. But there is no guarantee that the desired pattern of delivery and employer participation, even if it were achieved, would yield the desired impact of increased employment opportunities for the target groups.

I. INTRODUCTION

A. NATURE OF THE STUDY

This report summarizes some of the most important features of the implementation and performance of the Targeted Jobs Tax Credit (TJTC) as observed between July 1980 and March 1981 in twenty-five areas throughout the United States. The report is not intended to present twenty-five case studies of TJTC, nor will specific examples from all twenty-five sites be used. Rather, the focus is on identification of patterns common to a number of sites, particularly the roles of different agencies in TJTC's implementation, reasons for employer utilization and non-utilization of the credit, the effects of the credit on employer hiring and firing practices, and variations in TJTC's implementation and results across sites.

The data on which this report is based come from a variety of sources and provide a number of different vantage points from which to view TJTC: the assumptions and expectations of its designers; the goals of its implementers; and the perceptions and response of the employers that do and do not use it. Because the resources of this project are necessarily limited and because local experience varies widely, observations on different points vary in their precision and scope.

Six major sources of data were used:

1. The most detailed and reliable data come from a number of open-ended personal discussions conducted by the project staff with TJTC implementers in the Employment Service and CETA Prime Sponsorships in the twenty-five sites. Generally, these discussions were with management and operations staff involved directly with TJTC's implementation at the point of contact with employers and TJTC target groups. However, because the 17 state Employment Service offices

in which our 25 localities are set are important, TJTC managers in all 17 offices were also interviewed.

2. During the Fall 1980 field work, discussions were conducted at each site with one or more employers that were knowledgeable about TJTC and had either taken advantage of the tax credit, or had intentionally avoided involvement with it. A total of 47 employers were contacted, or roughly two per site. Note, however, that employers were selected for consultation on the basis of TJTC implementers' recommendations, and thus the set of employer discussions in no way constitutes either a random sample or a systematic survey of employer views. The discussions with employers simply provide some additional information that, when combined with other data, support some general observations about TJTC's effects.

3. Additional information about employer views on the tax credit was obtained from several surveys conducted by other research organizations. One such survey was undertaken in 1979 by the Office of Program Evaluation of the Employment and Training Administration. It consisted of discussions, mostly telephone conversations, with 133 employers (spread across 8 different DOL Regions), about half of whom were familiar with TJTC but were not taking advantage of it, and about half of whom had actually hired TJTC vouchered clients or had had their employees certified retroactively. Second, the California Employment Development Department provided us with its survey of employers on the state's Employer Advisory Groups. A total of 620 employers were interviewed in this survey, primarily to determine their views of TJTC.

4. Discussions were conducted with executives from several private for-profit firms that are assisting employers in screening their employees for eligibility for retroactive certifications. Such firms were contacted in Texas, Ohio, and Pennsylvania.

5. On a selected basis discussions were conducted with agencies serving ex-offenders, cooperative education students, and handicapped persons. The purpose of these contacts was to determine the implementation strategies of these agencies and their experiences in using the credit for target groups not being served at high levels by the Employment Service and CETA Prime Sponsors. Generally, only those agencies that evidenced a significant level of TJTC vouchering activity were contacted, and hence, again, this set of discussions in no way constitutes a systematic survey of the activities and experiences of the vouchering agencies in question. Overall, 36 individuals in these other vouchering agencies were contacted, or about 1 per site.

6. Where they were available, standard quantitative data on the number of vouchers and certifications issued in our sites, and the characteristics of participants served, were obtained from state and local Employment Service offices. Local Employment Service offices also provided estimates of the percentage of their certifications that are retroactive, and the types of employers in their areas that are taking advantage of TJTC. The U.S. Employment Service provided us with standard TJTC quantitative data aggregated by DOL Regions and for the nation as a whole at several points in time. However, we have discovered that quantitative information on vouchers and certifications is not very detailed, is handled somewhat differently in each locality and each state, and provides only a rough profile of what is happening. TJTC is in many ways a data-poor program, and the state of quantitative data reflects this situation vividly.

Although none of these kinds of data by themselves provide definitive answers to questions about TJTC's implementation and results, taken together

they give a fairly comprehensive view of what TJTC is producing, support some explanations, and raise doubts about other possible explanations.

The field work in the twenty-five sites on which this report is based took place at three points in time. The first round of field work was conducted between April and late June 1980 and developed a topographical map of the agencies involved in TJTC's implementation. The second round of field work took place between late August and late October 1980. At that time research was expanded to include discussions with employers familiar with TJTC as well as Employment Service administrators familiar with the WIN Tax Credit, so that it was possible to compare the WIN and TJTC experiences and begin explaining why employers do and do not take advantage of the latter. The third round of field work was conducted between February and late March 1981. It updated findings from previous field work and explored in more detail the client response to TJTC and the effects of TJTC's pending expiration (December 1981) on employer participation. During each round of field work, between 4 and 24 interviews were conducted, depending on the complexity of the local TJTC operation, the level of TJTC activity by the other vouchering agencies mentioned above, and the responsiveness of employers familiar with or using the tax credit.

This study of TJTC is being conducted simultaneously with a study of the CETA Private Sector Initiatives Program (PSIP). The latter study began in the Winter of 1979, and the sites chosen at that time now compose the sample of sites for both the TJTC and PSIP studies. (Although the addition of the TJTC component to the existing PSIP study is economically and logistically efficient, it does present some drawbacks such as our inability to have pre-selected sites

that would represent a variety of approaches to and experience with TJTC.) The sites were selected for the purpose of producing a group that possessed several kinds of diversity: geographical spread, types of Prime Sponsorships, some that were PSIP demonstration sites beginning in the Summer of 1978 and some that were not, size of program, type of labor market, and ethnic mix.

Table 1 lists the sites and indicates the type of prime sponsorship areas present and the Federal region in which each is located.

This report is divided into four sections. This, the first section, concludes with a short overview of TJTC, a discussion of the differences between tax credits and employment and training programs, and a summary of some of the assumptions and expectations underlying the design of TJTC and the system delivering eligible participants and forms to employers that want to take advantage of it. Section II describes TJTC's implementation and performance, both of which depart widely from many people's expectations. Section III assesses the effects of variations in TJTC's implementation on its performance in the twenty-five sites included in this study, and provides explanations of why TJTC does not appear to be producing the results expected of it. Section V contains some concluding thoughts.

B. TJTC OVERVIEW

The Targeted Jobs Tax Credit is part of the Revenue Act of 1978 signed into law November 6, 1978. It replaces the New Jobs Tax Credit and the related Vocational Rehabilitation Tax Credit that expired on December 31, 1978. The primary difference between the New Jobs Tax Credit and TJTC is that the former credit sought to provide private sector employers with an incentive to expand total employment while the latter primarily aims at increasing

TABLE I: PRIME SPONSORSHIP AREAS IN TJTC STUDY

Prime Sponsorship	Federal Region	Type of Prime Sponsorship
Adams Co., CO	VIII	Co.
Alamo Csrt., TX	VI	Csrt.
Clark Co., OH	V	Co.
Dayton, OH	V	City
Erie Csrt., NY	II	Csrt.
Hartford Csrt., CN	I	Csrt.
Houston, TX	VI	City
Kansas City Csrt., MO	VII	Csrt.
Louisville/Jefferson Csrt., KY	IV	Csrt.
Memphis Csrt., TN	IV	Csrt.
Milwaukee Co., WI	V	Co.
Minneapolis, MN	V	City
Morris Co., NJ	II	Co.
Penobscot/Hancock Csrt., ME	I	Csrt.
Pittsburgh, PA	III	City
Portland, OR	X	City
Sacramento Csrt., CA	IX	Csrt.
St. Louis, MO	VII	City
San Diego RETC., CA	IX	Csrt.
San Francisco, CA	IX	City
Santa Clara Csrt., CA	IX	Csrt.
Southern Alleghenies Csrt., PA	III	Csrt.
Syracuse, NY	II	City
Tampa, FL	IV	City
Wayne Co., MI	V	Co.

private sector employment opportunities for only certain categories of individuals--seven to be specific:

1. Recipients of Supplemental Security Income (SSI) payments.
2. Handicapped individuals referred from vocational rehabilitation or the Veterans Administration.
3. Economically disadvantaged Vietnam-era veterans who are under 35 years old.
4. Economically disadvantaged youth from 18 through 24 years old.
5. Economically disadvantaged ex-convicts convicted of a felony who are hired within five years of either release from prison or date of conviction.
6. Recipients of approved state or local general assistance.
7. Youth, 16 through 19 years old, participating in an approved cooperative education program.

An employer is eligible for a tax credit only for hires from among these categories of individuals.

TJTC was intended to work by way of an eligibility "voucher" that is given to an eligible job seeker by an authorized public agency. If the individual is hired, the employer completes a portion of the voucher and sends it to an Employment Service office where it is reviewed to insure compliance with regulations. Assuming no problems have been identified, a "certification" is returned to the employer to provide necessary documentation for tax purposes.

The law also permits employers to apply for a tax credit on a retroactive basis, that is, after an employee has already been hired. Eligible employees hired after September 26, 1978, onward can earn the tax credit for their employers for wages paid to them after December 31, 1978. However, the retroactive eligibility of these employees must be certified by one of the vouchering agencies, in the sense that a voucher must be issued. And the Employment Service, which is the only agency authorized to issue

certifications, must review the vouchers and issue certifications for retroactives just as it does for "new" TJTC hires.

TJTC allows employers to claim tax credits on 50 percent of first year wages (up to $6,000) and on 25 percent of second year wages (up to $6,000). However, because an employer's normal deductions for wages must be reduced by the amount of the credit claimed, net TJTC savings depend on the employer's tax bracket. Actual first year savings can range from $900 for an employer in the 70 percent tax bracket to $2,580 for one in the 14 percent bracket, for each eligible employee paid $6,000 for the first year of employment.

In part, to prevent employers from hiring targeted workers to displace nontargeted workers, there are two key restrictions in the legislation mandating TJTC:

1. Wages on which the credit is claimed cannot exceed 30 percent of total wages paid to all employees of a firm; and

2. The credit cannot exceed 90 percent of an employer's tax liability.

Also, no credit may be claimed for wages of an employee for the period in which the employer received on-the-job training payments, or claimed the WIN tax credit, for that employee.

TJTC eligible individuals may receive a voucher from any agency authorized to issue them--Employment Service offices, CETA Prime Sponsors, State Vocational Rehabilitation Departments, General Assistance Programs, the Veterans Administration, Social Security Administration District offices, and Cooperative Education programs. (Cooperative Education programs have somewhat different procedures for handling TJTC than do other agencies.) Employment Service offices and CETA Prime Sponsors are permitted to issue vouchers to all but Cooperative Education students. The other agencies may only issue vouchers to their client groups or (with the exception of Cooperative Education) they may refer them to an Employment Service or Prime Sponsor office, depending on what arrangements have been made locally.

C. EVALUATING EMPLOYMENT TAX CREDITS

Employment tax credits pose serious problems for evaluation. Particularly tricky is ascertaining the point at which evaluation of the delivery system should end and evaluation of the tax credit, the mix of incentives and requirements designed to alter employer behavior, should begin. It is generally assumed, we think correctly, that delivery system performance affects the extent to which traditional employment and training programs achieve their intended effects, since these programs contain a major bureaucratic component. Eligible individuals must be located and taken in, assessed and referred to training programs, and trained and placed in jobs. All or at least most of these processes are controlled more or less centrally and hierarchically by a government agency--in the case of CETA, by CETA Prime Sponsors. In contrast, however, employment tax credits are sometimes viewed as largely self-administering, in the sense that they are intended to alter economic behavior through an alteration of the tax structure rather than through a bureaucratic intervention into the labor force side of the labor market. From this perspective, if an employment tax credit fails to induce significant numbers of employers to claim the tax credit or alter their behavior, then the failure is due to the nature of the tax credit itself, not administrative procedures and organization. And evaluation of the latter would appear to be a wasted effort. In actuality, however, the extent to which employment tax credits necessitate the involvement of public agencies (beyond the Internal Revenue Service) depends on the nature of the tax credit itself, and the U.S. experience with different types of employment tax credits suggests that the extent and nature of public agency involvement may affect the extent to which employers claim tax credits. The question is how much, and in what ways.

Both marginal and targeted employment tax credits have been tried in the United States. Marginal tax credits attempt to induce employers to expand their employment by offering them a tax deduction for part of the increase in wages they pay above a previous year. In contrast, targeted tax credits attempt to induce employers to hire certain categories of people by offering employers a tax deduction for part of the wages paid to people in the targeted categories. In other words, although both types of credits offer deductions for wages paid, marginal tax credits attempt to influence how many people employers hire, while targeted tax credits attempt to infiuence who they hire. Generally, marginal tax credits require little or no government implementation because firms certify their own eligibility, whereas targeted tax credits require bureaucratic administration to certify the eligibility of employees for whom the credit is being claimed.

Experience with these two types of employment tax credits suggests that marginal tax credits are claimed by employers much more frequently than targeted tax credits. The New Jobs Tax Credit (NJTC), which was signed into law as part of the Tax Reduction and Simplification Act of 1977, is the only marginal tax credit that has been tried in the United States. Although the tax savings offered under the New Jobs Tax Credit were less than those being offered under existing targeted tax credits (TJTC, WIN, and welfare), employers claimed the former much more often than they have the latter. With certain restrictions similar to those in TJTC, the New Jobs Tax Credit allowed employers to deduct 50 percent of the increase in their wage base above 102 percent of the wage base for the previous year. The deduction could be claimed for up to $4,200 per employee, and the employer's deduction for wages was reduced by the amount of the credit. Therefore, actual maximum savings could range between $1,806 for employers in the 14 percent tax bracket and $630 for employers in the 70 percent tax bracket, compared to corresponding TJTC savings of $2,580

and $900, for each employee paid the maximum deductible wages during a single year. Despite the fact that the New Jobs Tax Credit offered less savings and was advertised no more than TJTC, employers claimed New Jobs Tax Credits for over three times as many employees during NJTC's first year of operation as they claimed under TJTC during its first year. At least 1.1 million employees were subsidized under NJTC in 1977, whereas only slightly over 300,000 employees were subsidized under TJTC during Fiscal Year 1980.[1]

The lower level of employer credit-claiming in TJTC relative to the New Jobs Tax Credit might be due to the comparatively large role of public agencies in targeted tax credits generally, but it may also be that public agency involvement does not affect how many employers claim credits or alter their hiring behavior. There are at least four other plausible explanations for the different levels of employer credit-claiming found in the two tax credits. First, insofar as employers are reluctant to take advantage of a targeted tax credit unless they normally hire from individuals "close to" the targeted groups, targeted tax credits may be usable to fewer employers than marginal tax credits, which can be taken by any growing firm regardless of the types of people it hires. Second, the greater employer credit-claiming in the New Jobs Tax Credit relative to TJTC might be a function of the economic cycle. The New Jobs Tax Credit was launched during a period of business expansion, while TJTC has been available during a period of little economic growth. Third, the tax liabilities of firms probably vary systematically across sectors of the economy as well as over time. If firms are unlikely to claim deductions in a targeted tax credit unless they normally hire from individuals approximating the target groups, and if such firms have fewer tax liabilities than growing firms, then a lower level of employer credit-claiming should be expected in targeted credits relative to marginal credits. Finally, NJTC, unlike TJTC, was not an <u>elective</u> tax credit;

employers were required to claim NJTC until the Revenue Act of 1978 eliminated this requirement retroactively. And this may be another reason why employers claimed NJTC more frequently than they have claimed TJTC. In short, the question of whether aspects of the delivery system affect the performance of employment tax credits is neither inconsequential nor easy to answer.

In evaluating employment tax credits, three factors must be assessed before conclusions can be reached about whether and why they are achieving their intended results. First, it is necessary to determine the extent to which the delivery system performed its tasks. In targeted tax credits, the delivery system must at least publicize the availability of the credit and certify the eligibility of employees for whom employers would like to take the credit. Second, it is important to obtain some indication of the frequency with which employers claim the credit, and identify reasons for infrequency of credit-claiming where it occurs. No employment tax credit can be successful if it fails to stimulate significant numbers of employers to claim the tax credit. Third, however, the effects of the tax credit on employer hiring, firing, and retention decisions need also to be considered, since employer credit-claiming alone may not mean that the tax credit has altered employer behavior. It may be that only already growing firms take advantage of marginal tax credits, and that only firms that normally hire from the targeted groups take advantage of targeted tax credits, in which case both types of tax credits simply subsidize some employers and employees without having produced any special behavior on their part.

This study examines each of these aspects of TJTC and compares the actual results achieved in each area to the results that could be expected given the assumptions underlying the design of TJTC and the system established to deliver it. The purpose of this comparison between actual and expected results is to inform the implicit theory underlying TJTC--the assumptions

about delivery system, employer, and client motivations. The analysis begins in the next section of this report with an explication of TJTC's underlying assumptions and expectations.

D. ASSUMPTIONS AND EXPECTATIONS

Introduction

Various people at both the local and national levels have a variety of expectations about what results TJTC should achieve. The purpose of this section is to articulate these expectations and explicate some of the assumptions underpinning them. It should be noted, however, that the expectations and assumptions discussed in this section are drawn from a number of sources, and are presented here only as a guide to evaluation, not as a reconstruction of the policy process. Many people were, and remain, doubtful that TJTC as legislated can have much impact on employer hiring practices and target group employment. In particular, the national office of the United States Employment Service (USES) anticipated many of the problems in TJTC identified by this study and attempted to deal with these problems pragmatically, even though in large part the problems stemmed from aspects of the TJTC legislation over which USES has no control. In short, the expectations presented in this section represent a "best case," with the assumptions underlying them providing a theory that can be informed empirically.

Expectations and Assumptions about Economic Impacts

TJTC provides a financial incentive for employers to hire individuals from groups that are at a competitive disadvantage on the labor market because of limited work experience, poverty backgrounds, physical handicap, or other factors that tend to put them low among employer hiring preferences. Clearly, whatever else TJTC might be expected to accomplish, it is reasonable

to expect it to increase private sector employment opportunities for TJTC target groups. In discussing TJTC, people have suggested to us the following ways in which they think this will happen:

1. Employers will alter their hiring practices so as to be able to take advantage of the tax credit.

2. TJTC will promote growth in the kinds of jobs TJTC target groups are capable of performing, even if hiring practices are not affected.

3. In order to maximize their tax savings under TJTC, employers will be reluctant to fire TJTC certified employees, at least more reluctant than they would be in the absence of the tax credit.

Each of these expectations rests on a number of assumptions about employers and TJTC target groups. Although the assumptions vary depending on the expectation in question, the following ones have been shown by our research to be important if employers are to respond as expected:

1. Insofar as employers perceive the productivity of TJTC target groups to be lower than that of their regular employees, employers must believe that the tax savings offered by TJTC are greater than the revenues anticipated to be lost due to this lower productivity.

2. Insofar as employers perceive "hidden costs" in TJTC, these hidden costs together with anticipated productivity costs must be less than the tax savings from TJTC. These hidden costs might include, in the employer's view, increased likelihood of an IRS audit, problems that could be created among other members of his labor force due to the presence of TJTC eligibles, and so on.

3. Employers must have tax liabilities and hence find a tax deduction usable.

4. Employers must believe that an alteration in their hiring practices based on TJTC eligibility criteria is not a violation of fair hiring laws.

5. Employers must base their hiring, firing, and retention decisions on some calculation of costs (productivity and hidden costs) relative to benefits (tax savings).

Delivery System Expectations and Assumptions

The system established to implement TJTC eligibility determination,

vouchering, and certification includes seven sets of agencies: the Employment Service, CETA Prime Sponsors, local Social Security Insurance offices, vocational rehabilitation agencies, the Veterans Administration, and school systems with approved cooperative education programs. However, of these agencies only the Employment Service received any funds to help cover the costs of implementing TJTC, and the funds it received were quite small. With these funds, State Employment Service offices could produce and maintain an adequate supply of voucher and certification forms, train vouchering agency staff in program operations, provide technical assistance, develop and distribute publicity on TJTC, and establish a toll free (WATS) telephone number, thus eliminating the need for the other vouchering agencies to duplicate these efforts. But little money was provided to the Employment Service, and no money to the other vouchering agencies, to pay for the staff time required to voucher TJTC eligibles, contact employers, and perform other duties required for TJTC's implementation. Nevertheless, most people expect all of the designated vouchering agencies to use TJTC as a placement tool, that is, they expect TJTC to be consciously implemented. The following reasons have been given to support this expectation:

1. TJTC will enhance the designated vouchering agencies' ability to place their clients in private sector jobs.

2. TJTC will expand the range of businesses in which the agencies can place their clients, allowing the agencies to develop jobs with higher pay, more opportunity for advancement, increased likelihood of retention, and so on.

3. TJTC will enhance the likelihood that employers will retain the agencies' clients during the first two years of employment.

4. TJTC will improve employer response to the agencies' other programs outside of TJTC.

As with expected economic impacts from TJTC, these reasons for expecting designated vouchering agencies to implement TJTC rest on a number of

assumptions. Although the assumptions vary depending on the expectation in question, the following ones have been shown by our research to be important:

1. TJTC must generate new hires that potentially can increase the placement rates of the vouchering agencies, not primarily retroactive certifications that do not affect agency placements.

2. The placements achieved per hour of work with TJTC must be equal to or greater than the placements achieved per hour of work without TJTC.

3. TJTC implementers in the designated vouchering agencies must have some interest in developing better jobs for their clients.

4. Personnel in the designated vouchering agencies must base their decision of whether to implement TJTC on some calculation of the ratio of implementation costs (staff time and effort) to benefits (increased placements, expanded business contacts, improved retention rates).

Overview of Expected Performance

Overall, TJTC's design envisions a dialectic between implementation and performance. The dialectic should evolve roughly as follows: Designated vouchering agencies begin marketing TJTC and issuing vouchers in hope of increasing their placement rates, and of course in response to the dictates of administrators in their national offices. Once informed of the tax credit and finding vouchered participants seeking employment, employers alter their hiring practices by hiring from the target groups so as to take advantage of the tax savings. Then, finding that TJTC does improve placements, vouchering agencies increase marketing and vouchering, employers increase their participation, and the dialectic begins again.

For the dialectic to, so to speak, take off, a number of conditions must be fulfilled. The delivery system must initiate movement by marketing TJTC and issuing vouchers. Vouchered participants as well as the delivery system must use TJTC as a tool for obtaining employment for target group members. And employers must alter their hiring practices, or at lease increase their

willingness to hire the clients of the vouchering agencies. If the expected pattern of performance does not occur, then it is likely that one or more of these conditions has not been fulfilled.

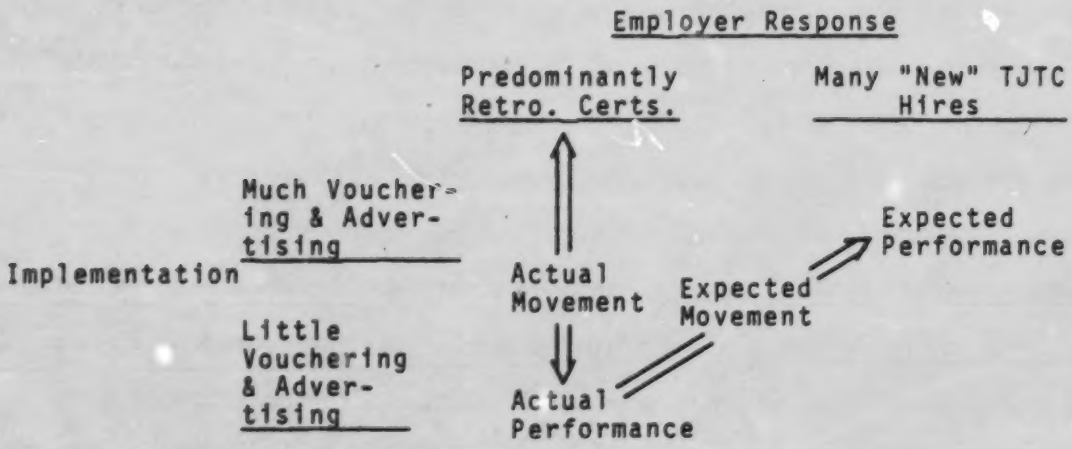
II. PATTERNS OF IMPLEMENTATION AND PERFORMANCE

A. OVERVIEW

The basic finding of our research is that the pattern of implementation and performance expected of TJTC has not occurred. In many of the twenty-five sites included in this study, local Employment Service offices and CETA Prime Sponsors are skeptical of TJTC and reluctant to use it extensively as a placement tool, while most employers are participating in TJTC by way of retroactive certifications and are not altering their hiring, firing, and retention practices. Table 2 on the following page delineates four patterns of performance by crosstabulating types of employer participation with strategies of implementation. Employers could take advantage of TJTC either by having existing employees certified retroactively, or by hiring vouchered TJTC participants, or both. As previously stated, in most cases retroactive certifications do not increase placement rates for designated vouchering agencies and hence are unlikely to generate much enthusiasm for TJTC on the part of these agencies. For their part, the designated vouchering agencies could implement TJTC either by vouchering all or most TJTC eligibles and letting them market themselves to employers, or vouchering TJTC eligibles on a selective basis, say, when there is a TJTC job order appropriate for a TJTC eligible or some other reason to expect placement to occur. In mandating seven vouchering agencies and establishing vouchering and certification goals for Employment Service offices and CETA Prime Sponsors, policy makers and TJTC administrators at the national level appear to have expected the performance pattern depicted in the upper-right cell of Table 2, where vouchering agencies voucher all or most of their eligible clients so that they can improve their chances on the labor marker, and where employers hire these vouchered individuals in order to take advantage of TJTC. In actuality, however, the

performance pattern found in most of our sites is the one depicted in the lower-left cell of the Table, where there is limited vouchering, and employers participate primarily or exclusively by way of retroactive certifications.

TABLE 2: ALTERNATIVE PATTERNS OF TJTC PERFORMANCE



Moreover, changes in the performance patterns of our sites over time have tended to be away from, rather than toward, the desired or expected pattern of the upper-right cell of the Table. It would have been reasonable to expect the vouchering agencies to begin implementation with a restricted vouchering policy, and for employers to initially participate in TJTC by way of retroactive certifications and then begin hiring vouchered TJTC eligibles. In turn, once employers began seeking and hiring vouchered participants, the vouchering agencies could be expected to expand their vouchering activities in order to increase their placement rates. In other words, it would have been reasonable, given the assumptions underlying TJTC about employers and the delivery system, to expect movement from the lower-left to the upper-right cells of Table 2. However, where movement has occurred in our sites, it has been between the two cells at the left of the Table, with little or no change in mode of employer participation. In several sites, notably those in California but others as well, restricted vouchering was replaced by blanket vouchering in an attempt to increase certifications, but, when the level of certifications failed to increase significantly, the restricted vouchering policy was reinstituted. Likewise, a number of Employment Service offices and CETA Prime Sponsors in our sites began implementation with a policy of vouchering all TJTC eligibles, but then replaced this with restricted vouchering after finding that few vouchers were associated with certifications, and that most employers participated by way of retroactive certifications.

Although important, these basic findings leave much unsaid. The remainder of this section describes in detail the evolution of TJTC's performance, and its delivery system, marketing, client recruitment, and employer response.

B. THE EVOLUTION OF TJTC IMPLEMENTATION AND PERFORMANCE

Changes in TJTC Regulations and Guidelines

There have been three significant changes in TJTC regulations and guidelines since February of 1979 when the tax credit became available. The April 3, 1979, CETA Regulations established initial division of responsibility between Employment Service offices and CETA Prime Sponsors in implementing voucher and certification procedures. Under these regulations, CETA Prime Sponsors could issue vouchers for only the three economically disadvantaged target groups (Vietnam-era veterans, youths 18 through 24 years old, and ex-offenders), and they were required to enter into formal agreements with Employment Service offices regarding eligibility determination, referral, and marketing for TJTC. References to TJTC in the regulations were brief, in large part leaving administrative procedures to be developed locally.

The first significant change in TJTC regulations occurred in October 1979 when the Department of Labor issued a Field Memo (FM 18-80) clarifying the role of Prime Sponsors in TJTC's implementation. Prime Sponsors were informed that they should integrate TJTC vouchering into their existing intake and placement procedures, delegating this responsibility to the Employment Service only when they had a formal agreement to do so and the Employment Service was an agent in CETA intake. Prime Sponsors were required to issue an Applicant Characteristics Form at the same time that they issued vouchers, and forward both to the Employment Service for review. When vouchered clients were hired, employers returned the vouchers to the Employment Service, which issued a certification and sent one copy to the Prime Sponsor and one copy back to the employer. This clarification of Prime Sponsor responsibilities under TJTC was intended to insure that Prime Sponsors served CETA clients with TJTC rather than letting the responsibility fall on the Employment Service.

The second significant change in TJTC regulations was accompanied by an effort from the national level to motivate increased vouchering on the part of local Employment Service offices and CETA Prime Sponsors. In January 1980 the Department of Labor issued a Field Memo (FM 135-80) establishing a goal of 250,000 certifications by the end of Fiscal Year 1980. For the first time the Employment Service was allowed to use Title III grant funds for vouchering as well as managing and administering the tax credit. And CETA Prime Sponsors were authorized to issue vouchers for all TJTC target groups except cooperative education, rather than only the economically disadvantaged target groups. The field memo strongly encouraged Prime Sponsors to voucher all TJTC eligible clients that were ready for employment. Moreover, Regional Department of Labor officials were required to meet with state Employment Service offices and CETA Prime Sponsors by February 28, 1980, to provide technical assistance and establish state-wide voucher and certification goals for both the Employment Service and the Prime Sponsors. These meetings were intended to stimulate increased vouchering activity at the local level.

Finally, the Department of Labor issued several additional statements on TJTC in the Spring of 1981. Department of Labor Field Memo 117-81 established certification goals for Fiscal Year 1981. These goals had been transmitted to Regional Department of Labor offices in August 1980. The goal for FY81 is 300,000 certifications. In the same Field Memo, agencies participating in TJTC were urged to increase local marketing efforts, increase the level of "new" TJTC hires (as opposed to retroactive certifications), integrate TJTC with other employment and training programs, and balance activities among the target groups so that they reflect the size of these groups as a proportion of the eligible population. Moreover, USES adjusted the funding formula for TJTC administration to encourage "new" TJTC hires over retroactive certifications. At roughly the same time (April 7, 1981), Employment and Training Handbook

Number 377 was altered to require quarterly rather than monthly reports on certifications and vouchers, and data on retroactive certifications. Many of these changes in TJTC guidelines appear to have been intended to address problems identified in TJTC during Fiscal Year 1980, notably the high proportion of all certifications estimated to be retroactive, and the greater than proportional service to cooperative education students relative to the other target groups in the eligible population.

It is doubtful that these most recent changes in TJTC guidelines will have much effect on either retroactive certifications or levels of service to the target groups, but earlier changes in TJTC definitely improved delivery system performance during TJTC's startup. After the emphasis on TJTC by the Department of Labor during January and February 1980, local Employment Service offices and CETA Prime Sponsors began to take TJTC much more seriously than they had initially, and vouchering activity did increase. Without this push, it is doubtful that agencies at the local level would have given TJTC much attention at all.

However, current efforts to alter the proportion of certifications that are retroactive and the distribution of service across TJTC target groups are unlikely to be successful because both of these aspects of TJTC performance depend heavily on employer motivations, which are unlikely to change regardless of changes in TJTC's delivery. As discussed further in this report, retroactive certifications are more frequent than "new" certifications because employers prefer to participate in TJTC in this way. About all the delivery system could do to influence significantly the proportion of certifications that are retroactive, is to make it more difficult for employers to have their eligible employees vouchered and certified retroactively, something the system is unlikely to do because it needs the retroactive certifications to be able to achieve certification goals. Similarly, cooperative education students represent a large proportion of total TJTC participants because they are

probably the least disadvantaged of all the TJTC target groups.

Level of Planned Certification Achieved

Although the actual performance pattern found in TJTC has not corresponded and does not appear to be approaching the pattern expected, TJTC use has increased, and TJTC has been achieving the certification goals set for it by policy makers at the national level. Table 3 shows the cumulative number of vouchers (796,335) and certifications (407,532) issued between March 1979 and December 31, 1980. During this period, the number of vouchers issued each month has increased fairly steadily; whereas only 2,551 vouchers were issued in April 1979, almost 60,000 vouchers were issued each month between October and December 1980. In contrast, however, the number of certifications issued each month rose fairly steadily from April 1979 to January 1980 but then fell steadily through August 1980. Between September and December 1980, the number of certifications issued each month began rising again and is probably back up to the level attained in January 1980. The falloff in certification activity between February and August 1980 was probably a function of the downturn in the business cycle that occurred during that period, as well as a decline in participation by cooperative education students during the summer months when school is not in session.

In almost all regions of the United States, TJTC has been achieving its certification goals. Table 4 shows the percentage of planned certifications achieved by Department of Labor Regions from March 1979 through September 1980, and from October through December 1980. Except for Region IX, all Regions exceeded plan, usually by wide margins. Likewise, for the nation as a whole TJTC certifications exceeded the planned 250,000 level for Fiscal Year 1980 by over 50,000. The Department of Labor has established a goal of 300,000 certifications for Fiscal Year 1981, and the performance in the first quarter of FY81 suggests this goal will be achieved also, unless there is a significant change in employer utilization of the tax credit.

TABLE 3: TJTC ACTIVITY (CUMULATIVE), MARCH, 1979 - DECEMBER, 1980*

Month	Vouchers	Certifications
March, 1979	774	211
April	3,325	1,390
May	8,805	3,978
June	19,026	8,416
July	35,217	13,677
August	58,370	22,835
September	89,527	37,020
October	125,241	58,175
November	157,332	78,018
December	199,957	108,730
January, 1980	249,928	141,062
February	298,771	170,807
March	346,127	195,533
April	391,996	216,702
May	437,092	235,214
June	482,186	252,934
July	526,401	269,870
August	568,473	284,598
September	616,942	305,743
December	796,335	407,532

*Source: Targeted Jobs Tax Credit Program Monthly Summaries, Periods Ending August 30 and December 31, 1980; U. S. Employment Service, Office of Program Review.

TABLE 4: PERCENTAGE OF PLANNED CERTIFICATIONS ACHIEVED BY DOL REGIONS, FY79/80 and 1st QTR. FY81

Region	FY79/80 Plan Certifs.	FY79/80 Actual Certifs.	FY79/80 % Plan Certs.Ach.	1st Qtr. FY81 Plan Certifs.	1st Qtr. FY81 Actual Certifs.	1st Qtr. FY81 % Plan Achieved
I	11,775	13,951	119%	3,525	3,781	107%
II	28,225	28,892	102%	7,050	9,812	139%
III	27,150	37,794	139%	8,100	11,718	145%
IV	47,975	86,364	180%	19,425	25,985	134%
V	44,175	49,029	111%	12,600	16,916	134%
VI	26,725	38,153	143%	8,025	14,919	186%
VII	13,250	14,513	110%	3,825	5,481	143%
VIII	8,900	10,813	122%	2,550	3,152	124%
IX	31,725	13,904	44%	7,275	5,146	71%
X	10,100	12,330	122%	2,625	4,879	186%
Total	250,000	305,743	122%	75,000	101,789	136%

Delivery System Response

The three waves of field work for this study provide three snapshots of TJTC's implementation and performance: One in the Spring of 1980, one in the Fall of 1980, and a third in the Winter of 1981. During the first round of field work, which was conducted between April and June 1980, we observed that many Employment Service offices and most CETA Prime Sponsors were not vouchering their TJTC eligibles in high numbers because often they did not believe TJTC is an effective placement tool. On average, about four-fifths of the certifications that had been issued in our sites were retroactive; in most sites there was little coordination between the designated vouchering agencies and only a few people in each site even held goals for TJTC; TJTC did not appear to be generating employer participation in other Employment Service and CETA programs; and most TJTC implementers believed, on the basis of the employer response to the tax credit, that TJTC was virtually invisible in the business community.

During the second round of field work, which was conducted between August and October 1980, we observed that modest changes had occurred in TJTC, but the changes were outside the Employment Service-Prime Sponsor nucleus. The most significant, although nevertheless quite modest change, was an increase in the interest and involvement of Private Industry Councils (PICs), other vouchering agencies, and private-for-profit firms assisting businesses in obtaining certifications. PICs, which during the Spring had been active in TJTC in only 7 sites, were found in the Fall to be active in 10 sites. In almost all cases this involvement was in marketing TJTC, usually with a stress on retroactive certifications as a way to attract business interest in PIC activities. Likewise, 9 sites reported increased activity by other vouchering agencies, in most cases vocational rehabilitation agencies. Finally, in 7 sites new or increased activities were observed among private companies that assist local employers in taking advantage of TJTC. At the

time of the second round of field work, the only significant change observed in the employer response to TJTC was a slight decline in one site in the average percentage of certifications that were retroactive.

Changes in TJTC since the second round of field work have been modest but generally reflect lower interest and activity on the part of implementing agencies and related organizations. Three significant changes have occurred in the implementation of TJTC. First, marketing has been reduced greatly or eliminated in 12 sites, while it has been increased in only 3 sites. In the remaining 10 sites marketing has remained stable, usually at a low level utilizing employer seminars and job development contacts to spread the word about TJTC. In about half of the sites where marketing has been reduced or eliminated, the reduction or elimination was due to a lack of marketing funds. In the other half of the sites where marketing was curtailed, however, TJTC implementers believe that earlier marketing efforts failed to generate enough employer interest to justify continuation of the marketing effort.

The second significant change observed in TJTC's implementation since the second round of field work is reduced vouchering activity on the part of local Employment Service offices. Although Employment Service vouchering remained stable in 14 sites and increased in 3 sites, it was reduced in 8 sites. Four of these sites are in California, which replaced a blanket vouchering policy with a restricted vouchering policy after finding that blanket vouchering produced little increase in certifications. In contrast, 2 of the 3 sites with increased vouchering are in Texas, which recently provided funds through a Governor's grant to staff positions for marketing and issuing retroactive certifications.

The third change observed in TJTC's implementation since the second round of field work is an increase in activity by private firms assisting local employers in obtaining retroactive certifications. Seven sites reported

new or increased activity on the part of these "TJTC vendors," as they are sometimes called. TJTC vendors are now active in 14 of the 25 sites included in this study.

Finally, a modest change has occurred in the employer response to TJTC, perhaps due to the fact that TJTC is scheduled to expire at the end of 1981. Three sites report increased employer interest and utilization of TJTC, while the employer response was reported to be stable in all but one of the remaining 22 sites. Likewise, although 2 sites reported that the percentage of certifications which are retroactive had declined since previous field work, 9 sites reported that retroactive certifications as a proportion of all certifications had increased. The remaining 14 sites reported no change in retroactive certifications. TJTC implementers speculate that the slight increase in employer interest in the tax credit, and the increase in retroactive certifications, stem from employers' desire to take advantage of TJTC before it expires. Since the tax credit cannot be claimed for wages paid after December 31, 1981, the most lucrative way to take advantage of TJTC as its expiration approaches is through retroactive certifications rather than through hiring new employees that are eligible for the tax credit.

Overall, when these "snapshots" from the three rounds of field work are viewed quickly and in chronological order, the motion picture that emerges shows a modest and fairly stable employer response focusing on retroactive certifications, and a delivery system that started implementation unenthusiastically, then in a few places increased implementation activity, and then curtailed its efforts when significant increases in employer interest (beyond retroactive certifications) failed to materialize. Table 5 compares the level of TJTC activity by local Employment Service offices and CETA Prime Sponsors we observed during each round of field work. High activity refers to TJTC implementation designed to improve and expand relations with the private

TABLE 5: DISTRIBUTION OF LOCAL EMPLOYMENT SERVICE OFFICES AND CETA PRIME SPONSORS BY LEVEL OF TJTC ACTIVITY, SPRING 1980 - WINTER 1981

	Employment Service			Prime Sponsors		
	Spring 1980	Fall 1980	Winter 1980	Spring 1980	Fall 1980	Winter 1981
High Activity	7	7	2	6	5	3
Medium Activity	13	12	13	8	8	9
Low Activity	5	6	10	11	12	13

sector with aggressive marketing and vouchering activity; medium activity is implementation designed simply to achieve a "respectable" number of vouchers and certifications; and low activity basically represents the absence of explicit implementation activity altogether, in the sense of few vouchers being issued as well as attempts being made to avoid involvement in TJTC in other ways. As shown in the Table, the number of Employment Service offices and CETA Prime Sponsors implementing TJTC aggressively has declined over time, while the number evidencing little or no activity has risen.

C. DELIVERY SYSTEM TOPOGRAPHY

Overview

The delivery system for TJTC can best be characterized as one of random entrepreneurship, in the sense that some agencies in some sites are implementing the program aggressively, some weakly, and some almost not at all. Although the level of implementation varies considerably across sites and across agencies, TJTC is in all of our sites at most a "tag on" to existing intake and placement procedures. There is seldom any coordination between the designated vouchering agencies at the local level, except between Employment Service offices and CETA Prime Sponsors that have a formal agreement delineating responsibilities for TJTC's implementation. Similarly, while a number of Private Industry Councils (PICs) have or are beginning to market the tax credit, their marketing efforts are not coordinated with those of the Employment Service, a fact which State and local Employment Service offices find particularly distressful since they are often the ones who must respond to employer requests for information generated from PIC advertising. Evaluation of TJTC's performance, beyond that required for routine reporting to the Department of Labor, is largely nonexistent, and the particular units at which required data are aggregated (local, District, Regional, or State Employment Service offices) varies from state to state. Finally, in most sites

there is very little integration of TJTC with other employment tax credits, or with other Employment Service and CETA programs. Overall, the level of TJTC's implementation depends largely on the initiative or lack of initiative of administrators in local agencies. And exemplary implementation is found only where administrators happen to be far above average in their capabilities.

Local Perceptions, Goals, and Expectations

Because the response of TJTC's delivery system varies both across sites and across agencies, generalizations about the activities and goals of the designated vouchering agencies are not valid in all localities. However, in all of our sites we contacted Employment Service offices and CETA Prime Sponsors, and in most of our sites we contacted cooperative education agencies, vocational rehabilitation agencies, and agencies involved in placing ex-offenders. Discussions with personnel in these agencies provided at least some evidence about how the agencies are using TJTC. Generally, cooperative education and vocational rehabilitation agencies and agencies placing ex-offenders have responded much more favorably to TJTC than has either the Employment Service or CETA Prime Sponsors, both of the latter being skeptical of TJTC and reluctant to use it extensively as a placement tool.

Local Employment Service offices tend to be more active than CETA Prime Sponsors in TJTC, but TJTC activity by Employment Service offices is nevertheless usually limited. Employment Service offices in 17 sites do not expect TJTC to affect Employment Service-employer relations or placement rates, and hence they are reluctant to invest much staff time and effort into TJTC vouchering and marketing. In these sites most Employment Service offices are not issuing vouchers systematically and are relying on employer requests for retroactive certifications to achieve certification goals.

Whereas the bulk of Employment Service offices in our sites tend to be implementing TJTC at least to the extent required to approach voucher and certification goals, CETA Prime Sponsors are frequently trying to avoid disruption in their existing operations and hence are doing very little with the program. In fifteen of the 25 sites, CETA administrators expect TJTC to produce very few certifications, they doubt very much that it will in any way expand employer utilization of CETA training opportunities, and they do not think it will have an impact on negative employer attitudes about CETA and CETA clients. In a large number of sites, CETA administrators believe that TJTC challenges the very nature of the CETA enterprise. In the view of most CETA administrators, CETA is supposed to improve the employability of CETA clients by providing them with skills and work experience, not to place clients directly with employers while subsidizing employers for the clients' substandard productivity. And the administrators believe that, if TJTC and other employment tax credits are successful, CETA is largely out of business. Finally, CETA Prime Sponsors have had great difficulty in getting community based organizations, which often conduct CETA intake, to issue vouchers. And since Prime Sponsors received no money with which to implement TJTC, they are reluctant to perform this process themselves.

In contrast to the prevailing attitudes of Employment Service offices and CETA Prime Sponsors, TJTC implementers in vocational rehabilitation agencies and agencies placing ex-offenders believe that TJTC has been very helpful in developing jobs for their clients. Usually, in these agencies clients are not vouchered until they are referred to a particular job, but the agencies feel that TJTC is helping their clients obtain these jobs during the initial contact between the employer and the client. Perhaps surprisingly, very few instances have been reported of handicapped persons or ex-offenders refusing

to be vouchered. Generally, personnel in these agencies are very happy with TJTC, and many are using it extensively in their job development efforts.

Many cooperative education agencies are also using TJTC, but often not so much as a placement tool as a way to "pay back" employers that have been participating in cooperative education programs over the years. Usually the cooperative education student has already been placed in a job--he or she must already have a job to be enrolled in the program--and the cooperative education agency simply informs the employer of his opportunity under TJTC. Most employers are very pleased to obtain the tax credit, so cooperative education agencies have had little difficulty in issuing a great many certifications. (Only one form, IRS 6199, is used for the cooperative education target group, and it is counted as both a voucher and a certification.) In addition to wanting to pay back employers for their prior participation in cooperative education, cooperative education agencies are sometimes using TJTC because they feel that they must do so in order to be competitive with the other designated vouchering agencies. But very few people in cooperative education agencies believe that TJTC is actually helping them place students in jobs.

As perceived by the Employment Service, the least active vouchering agencies are Social Security and General Assistance agencies. In sixteen sites Employment Service officials claim that Social Security agencies are doing little or no vouchering. Employment Service officials make the same claim about General Assistance agencies in seventeen sites. Employment Service administrators argue that personnel in both the Social Security and the General Assistance agencies do not believe that their clients are capable of working and hence see no purpose in vouchering them for participation in TJTC.

Local Veterans Administration (VA) offices fall between these extremes. In eleven sites Employment Service administrators claim that the VA is doing little

vouchering, but in nine sites they report at least a moderate amount of VA activity in the program. As with vocational rehabilitation agencies, VA offices--according to respondents in the Employment Service--sometimes view TJTC as a useful tool in job development.

Overall, TJTC has not done much to promote greater communication and cooperation between the Employment Service and Prime Sponsors or either of these two agencies and others that are permitted to voucher. Where the Employment Service/Prime Sponsors are working closely on TJTC, this tends to characterize their relationships in other areas as well. It has not fostered increased cooperation in other employment and training areas. Likewise, very few links have been forged locally between the Employment Service or Prime Sponsors and other vouchering agencies, and those that have been are between the Employment Service and these other agencies and are mainly limited to the provision of technical assistance by the Employment Service. In only five sites could clear evidence be found that the local Employment Service had increased its overall involvement with another agency (a pre-release program for offenders was involved in three of the sites) as a result of initial TJTC cooperation. Only one Prime Sponsor made a similar claim of improved relations, in this case involving Vocational Rehabilitation.

Vouchering and Certification Strategies

The vouchering strategies and postures toward retroactive certifications of Employment Service offices and CETA Prime Sponsors vary considerably across our sites. The Employment Service is involved in vouchering in all 25 sites, and CETA Prime Sponsors have retained this responsibility in most areas. The majority of Employment Service offices are employing what can be called a "selective vouchering strategy," that is, they voucher TJTC eligibles only when there is a high likelihood of placement, or when either clients or

employers request a voucher. Seventeen sites use such a selective vouchering strategy, a number that has increased over time as Employment Service offices found that a less restrictive vouchering strategy yielded few certifications relative to the amount of staff time required in vouchering. Employment Service offices in 4 of the remaining 8 sites are vouchering all or almost all of their TJTC eligible clients, while the offices in the 4 other sites are limiting their TJTC activity to retroactive certifications and thus are not issuing vouchers at all during intake or referral.

The distribution of vouchering strategies across CETA Prime Sponsors in our sites is more even than that found among Employment Service offices. Roughly equal numbers of Prime Sponsors are using each of the three strategies--selective vouchering (9 sites), blanket vouchering (7 sites), or retroactive vouchering only (8 sites). One Prime Sponsor in the sample is doing nothing at all with TJTC.

Employment Service offices can take one of three postures toward retroactive certifications: They can try to discourage employers from applying for retroactive certifications, either by refusing to assist employers in screening their employees for eligibility, or giving the employers misinformation, or delaying the process; they can respond to requests for retroactive certifications as they come in, providing assistance to employers that want it; or they can actively push retroactive certifications by marketing them during job development and in other ways, going to the work site to screen employees for eligibility, and expediting the process. In 3 of our sites, Employment Service offices discourage retroactive certifications, in 14 sites they simply respond to employer requests, and in 8 sites they actively encourage employers to take advantage of TJTC through retroactive certifications and assist them in so doing. Over time, the number of sites discouraging retroactive certifications has declined, and the number promoting retroactive

certifications has increased, because several State Employment Service offices changed their retroactive certification policies, at least in one case because of pressure from local employers. Although some Employment Service offices push retroactive certifications because they hope they will generate new TJTC job orders or improve their image in the business community, the main reason some Employment Service offices encourage employer utilization of retroactive certifications is so that the Employment Service office can achieve numerical goals for certifications, goals that were established by DOL and broken out for local offices.

Relevance to Other Employment Service and CETA Programs

Because of the different objectives of Employment Service and CETA as organizations--Employment Service concentrates on direct placements, while CETA concentrates on training and "indirect" placements--TJTC is much more relevant to other Employment Service programs than it is to other CETA programs. Nevertheless, TJTC is seldom consciously coordinated by Employment Service offices with their other programs, such as the WIN tax credit. In twenty of the twenty-five sites, Employment Service offices have simply added TJTC vouchering as another step in the intake and referral process, either blanket vouchering all TJTC eligibles, or vouchering eligibles only when there is a job order appropriate for them, or issuing only retroactive certifications. The exceptions to this rule are the four sites in California, and the one in Kentucky. In California, TJTC is being marketed with three other tax credits--WIN, Welfare, and the State of California Tax Credit--and the credits are presented to employers as "Jobs Tax Credits" with different target groups and levels and types of tax advantages. This marketing strategy probably gives greater visibility to TJTC than it would have had if marketed by itself. In Louisville, Kentucky, TJTC implementers have found that TJTC can benefit WIN,

since employers requesting TJTC referrals are usually satisfied with a WIN referral if no TJTC eligibles are available. Finally, it should also be noted that in four sites Employment Service administrators have found TJTC to be useful in their programs for placing ex-offenders.

Among CETA Prime Sponsors there has been almost no attempt to link TJTC to other CETA programs. In thirteen of the twenty-five sites, Prime Sponsors have not integrated TJTC into any of their existing operations, either because they have turned the program over to the Employment Service or are not implementing it because they do not want to devote staff time to it. In nine sites TJTC eligibles are vouchered as a step in the placement process, but often vouchering is unsystematic and depends on how much time staff personnel have. In only three of the twenty-five sites has TJTC been used to help market OJT or increase the retention rates for OJT participants.

Marketing

Four types of organizations have been most active in marketing TJTC to employers: Private Industry Councils, private firms assisting employers in obtaining certifications, National Alliance of Business (NAB) metros, and state and local Employment Service offices. The latter have central marketing responsibility for TJTC and by far have been the most active marketing agencies in our sites. The state Employment Service office has conducted at least some state-wide TJTC promotional activity in 18 of our 25 sites, while local Employment Service offices in our sites are about evenly split between those making at least a modest effort to promote TJTC and those doing little. At both state and local Employment Service levels, a variety of promotional techniques have been used. State Employment Service offices have usually relied on mass mailings of TJTC information and presentations to employers and employer advisory committees (Job Service Employer Committees). Typical techniques used

by local Employment Service offices include mass mailings of letters and brochures describing TJTC, public service announcements on radio and TV, lunches, seminars, speeches, newspaper ads, and contacts with accountants and accountant associations. In addition to these more "media" oriented approaches, the Employment Service offices in at least one half of our sites make some conscious effort to promote TJTC by way of more personal approaches to employers. This may be done by way of special field representatives or, more often, it is simply added to the responsibility of local job developers. Almost all of the Employment Service offices using a face-to-face approach to business cite it as the most effective way (at least relatively speaking) to sell TJTC.

Local Employment Service offices in approximately one half of the study sites appear to have targeted their promotional activities at only certain types of business, usually those that are small and service-oriented. The typical rationale for this targeting is that it is these businesses that are most likely to take advantage of TJTC. They ordinarily hire from among at least some of the targeted groups, and/or the tax savings offered by the program are more significant to them than to big business.

Where they exist, NAB metros in almost all of our sites have promoted TJTC, usually with three different techniques. Most NAB metros conduct annual visits to local employers informing them of their opportunities under government employment and training programs, and most of the NAB metros in our sites have included TJTC in this information drive. Second, NAB metros often hold seminars and luncheons for employers, again to inform them of their opportunities. In a number of our sites, such seminars have been held specifically to discuss employment tax credits, with representatives from the Employment Service and the Internal Revenue Service, as well as employers

that have taken advantage of TJTC, there to provide information. Third, most NAB metros hold an annual "Jobs Fair," where employers come seeking workers and workers come seeking jobs. And TJTC has been marketed at these job fairs in many of our sites.

Over time, Private Industry Councils have become increasingly involved in marketing TJTC, since they are encouraged to do so under the CETA regulations that established them. We now have 9 sites where PICs are marketing TJTC, usually with a stress on retroactive certifications as a way to attract business interest in PIC activities. It should be noted, however, that two PICs have become disillusioned with TJTC after an initial experience with marketing it. Not only have these PICs found employer response to their marketing efforts to be rather limited, they have concluded that the kinds of businesses that are interested in TJTC do not provide the kinds of jobs in which they are interested in placing CETA participants--jobs with relatively good wages, working conditions, and opportunities for advancement.

Private companies that assist local employers in taking advantage of TJTC are active in 14 of our 25 sites. Usually, these companies screen an employer's current work force for eligibility for retroactive certifications and establish procedures for obtaining retroactive certifications from the Employment Service. They may also institute a process for checking the eligibility of new employees shortly after they are hired, and obtaining retroactive certifications for them. The "TJTC vendors," as they can be called, sometimes charge a fixed price for their services for a particular firm, depending on the size of the firm in question, or they take a percentage, usually 20-40%, of the tax savings they help employers obtain. The impact of these firms appears to be slight relative to total certification activity in TJTC, but where the TJTC vendors are active

they definitely increase the demand for retroactive certifications. Employment Service offices in some states cooperate with these TJTC vendors, while in other states they do not.

In almost all of our sites, the marketing activities of these different types of organizations have not been coordinated with each other, with the exception of those of NAB metros, which usually contact local Employment Service offices when implementing promotional activities. As with the system for issuing TJTC vouchers and certifications, the system for marketing TJTC is a system of random entrepreneurship.

D. EMPLOYER RESPONSE TO TJTC

Overview

Although the delivery system established for TJTC anticipated a process whereby vouchered individuals would market themselves to employers and employers would alter their hiring practices to take advantage of the tax savings, in actuality employers have tended to participate in TJTC by having eligible members of their existing labor force certified retroactively. Observations by local TJTC implementers as well as private companies assisting employers in obtaining TJTC certifications, suggest that a large proportion of the employers participating in TJTC are national firms in the service sector of the economy. Many of the major hotel, fast food, grocery, and retail sales chains have issued policies from their national or regional headquarters encouraging their local offices to take advantage of TJTC either by having their current employees certified retroactively, or by referring prospective employees to the Employment Service for vouchering, or both. A smaller proportion of TJTC certifications (also usually retroactive) have come from relatively small, local, light manufacturing companies. In part, these types of employers are participating more frequently than other employers because the TJTC delivery system has

targeted them when trying to "sell" TJTC--when TJTC implementers are trying to achieve goals with retroactive certifications, naturally they approach firms that are likely to have significant numbers of eligible individuals already in their labor force. But the employer participation pattern found in TJTC stems primarily from the fact that most employers are unwilling to participate in TJTC if it means a significant change in their hiring practices, and most prefer to have current employees certified retroactively rather than make "new" TJTC hires. After all, some employers may not be making new hires, and, moreover, this mode of participation (retroactive certifications) minimizes their contact with the vouchering agencies, provides ample (if not maximum) tax savings, and yet does not disrupt their hiring procedures.

Types of Employers Participating

According to TJTC implementers in the Employment Service and other vouchering agencies, most of the employers participating in TJTC normally hire from TJTC target groups. Wages for TJTC hires have tended to be less than $4 per hour. The jobs have been drawn largely from service industries, particularly fast food restaurants and hotels, and from light manufacturing firms. In only 3 of the 25 sites did Employment Service personnel believe that TJTC job orders had been placed by firms that do not normally place job orders with Employment Services anyway. Discussions with participating employers indicate that they are likely to take advantage of TJTC primarily when they have significant numbers of TJTC eligibles already in their labor force. This is probably why fast food restaurants and hotels account for such a large portion of the TJTC certifications, since they tend to employ young people, a number of whom are disadvantaged.

Types of Occupations

TJTC certifications have tended to be in service occupations, but certifications have also been obtained in a variety of other occupations as well.

Table 6A lists the percent distribution of TJTC certifications by occupations for the nation as a whole. As shown in the table, approximately one fifth of TJTC certifications have been in service positions. Each of the other types of occupations listed in the table account for 9% to 18% of the total certifications obtained, except for professional, technical, and managerial occupations and occupations in forestry, farming, and fishing. The latter types of occupations each accounted for about 3% of total certifications.

Types of Certifications Obtained

National TJTC data as well as local observations in our study indicate that about two-thirds of the certifications issued in TJTC are retroactive. Whereas nationally mandated data for TJTC define a retroactive certification as one where the date of the hire is more than fifteen days before the date of the voucher and certification, we made no such distinction in our study, instead counting as retroactive any voucher and certification issued after an employee was hired. But our estimates are nevertheless quite close to the actual figures from national sources.

Except where they are actually discouraged, retroactive certifications usually account for at least half of the certifications issued in our sites. Across our sites, retroactive certifications average almost three-fourths of the certifications issued, up from two-thirds at the time of the second round of field work. Table 6B shows the distribution of sites by the proportion of certifications that were retroactive in the Fall of 1980 and the Winter of 1981, demarcating levels by quartiles. The table shows that, while the number of sites reporting retroactive certifications in excess of three-fourths of all certifications has declined slightly, the number of sites reporting one-fourth or less certifications being retroactive has declined to zero.

TABLE 6A: PERCENT DISTRIBUTION OF TJTC CERTIFICATIONS BY OCCUPATION, CUMULATIVE THROUGH SEPTEMBER 30, 1980*

Occupation Type	% of Total Certifications
Prof., Tech., Mgr.	2.8 (4,712)
Cler., Sales	10.3 (17,243)
Service	22.7 (37,818)
Farm, For., Fish.	3.0 (4,922)
Processing	9.6 (15,945)
Machine Trades	12.1 (20,147)
Bench-Work	13.3 (22,122)
Structural	9.0 (15,052)
Misc.	17.3 (28,874)

*N's are in parentheses.

TABLE 6B: BREAKDOWN BY PROPORTION OF CERTIFICATIONS THAT ARE RETROACTIVE, FALL 1980 AND WINTER 1981

	Proportion of Certifications that Are Retroactive			
	0 to 1/4	1/4 to 1/2	1/2 to 3/4	More than 3/4
Fall, 1980	3	1	7	12
Winter, 1981	0	3	13	9

As evidenced in Table 7, national data on retroactive certifications show a similar pattern. Nationally, for those states that reported, retroactive certifications account for 64% of all certifications issued between October and December 31, 1980. Only two of the 24 reporting states have one-fourth or under of their certifications listed as retroactive, and only one state has more than three-fourths. In most states, retroactive certifications are about two-thirds of the certifications issued.

Although evidence is sparse, indications are that most retroactive certifications are for employees that have been on the job six months or less. Although it is impossible to be certain, there are probably two interrelated factors that account for this. First, the jobs are relatively low paying and are usually in occupations that normally experience high turnover as employees move to better paying jobs, or jobs with greater opportunities for advancement. Second, TJTC eligibles themselves may have attitudes and work habits that make them less likely than other employees to remain at a single job for extended periods of time.

Employer Hiring and Firing Practices

Employer hiring and firing practices do not appear to be significantly influenced by TJTC, even in those cases where employees are applying for current rather than retroactive certifications. The great majority of employers we talked to said that TJTC had not influenced them in their decisions to hire certain individuals.

There are only two instances where a strong case can be made that employer hiring decisions have been influenced: when employers place job orders with the Employment Service specifically requesting vouchered TJTC referrals and refuse to hire referrals who are ineligible, and when employers

TABLE 7: RETROACTIVE CERTIFICATIONS
REPORTED AS OF DECEMBER 1980
FOR 1st QTR. FY81

State	Total Certifications Excluding Co-op Ed	Retroactive Certifications	% Retroactive
Alabama	1,503	1,039	69
Alaska	74	45	61
Delaware	128	76	59
Florida	3,255	2,306	71
Georgia	4,372	3,340	76
Idaho	392	260	66
Iowa	480	194	40
Kansas	386	98	25
Kentucky	880	537	61
Louisiana	1,183	701	59
Maryland	753	338	45
Mississippi	853	641	75
Missouri	973	128	13
Nebraska	57	39	68
New Hampshire	43	18	42
New Mexico	423	311	74
North Carolina	1,997	1,389	70
Oregon	2,030	1,225	60
South Dakota	239	70	29
Tennessee	1,001	653	65
Texas	2,252	1,546	69
Virginia	1,155	703	61
Washington	1,446	892	62
West Virginia	94	59	63
TOTAL	25,969	16,608	64%

refer prospective employees to designated agencies for vouchering prior to making the hiring decision (the latter is called a "reverse referral"). A few reverse referrals have been reported in our sites, usually for fast food restaurants that are trying to maximize their tax savings. But reverse referrals are quite rare, occurring only in a few sites and then usually due to a single firm or chain. In contrast TJTC job orders are being placed in many of our sites, but employers that place the orders are usually willing to accept referrals that are ineligible for TJTC. Although TJTC job orders seldom are in large numbers, many of the current certifications (as opposed to retroactive certifications) are obtained in this way. Another, almost equally frequent way, is for the Employment Service to inform employers about TJTC after they have hired a vouchered TJTC participant.

Employers state that they almost never allow TJTC to influence their firing decisions. Usually, the person that must make firing decisions does not even want to know which of his employees are certified. The most important thing from the employer's perspective is the employee's performance, which, if unsatisfactory, cannot be outweighed by a small tax savings.

Spillover to Other Programs

Although infrequent, there has been some spillover from TJTC to other Employment Service and CETA programs. In two sites, CETA Prime Sponsors have used TJTC in conjunction with OJT, and they report that TJTC has made OJT more attractive to employers. They point out, however, that they are developing OJT slots with the same types of employers as before; TJTC simply makes it easier.

Spillover for the Employment Service is coming mainly through retroactive certifications. In ten of our sites, Employment Service offices report that

there have been a small number of cases where employers, after having part of their labor force retrocertified, place job orders with the Employment Service, sometimes specifying TJTC referrals, sometimes not. Employment Service personnel point out, however, that retroactive certifications are not generating a large enough number of new job orders to make it, in the Employment Service's view, worth the effort to issue the retroactive certifications, nor do Employment Service personnel believe they are receiving job orders from employers that are much different from employers that normally place job orders with them.

E. TYPES OF PARTICIPANTS SERVED

Overview

Seventy percent of TJTC vouchers and almost ninety percent of TJTC certifications (hires) have been in the two youth target groups--economically disadvantaged youth, and students in cooperative education. Three factors have converged to produce this client service pattern. First, relative to the other target groups, the youth target groups are a large proportion of the intaken, eligible population, and hence for this reason alone they are more likely than the other target groups to obtain a large proportion of the vouchers and certifications that are issued. Second, the largest and most job-development oriented agencies in the delivery system--the Employment Service, CETA Prime Sponsors, and local school systems with approved cooperative education programs--serve the youth target groups, while the smaller and sometimes less job-development oriented agencies have responsibility for vouchering and referring the other target groups. In other words, the resources of the delivery system are concentrated on the youth groups. Third, the youth target groups appear to be more employable than the other target groups. Students in cooperative education have no stigma on the job market

like some of the other target groups. And economically disadvantaged youths, although probably less competitive on the labor market than cooperative education students, are usually job-ready and are often willing to accept most any type of job.

This is not to say, however, that the other target groups are not being served, or that they should not be included as target groups in TJTC. It is simply to point out that TJTC is in large part a youth tax credit, and to provide an explanation of why this is the case in practice. The remainder of this section provides a more detailed analysis of TJTC client service pattern.

Target Group Vouchering and Certification Activity

There has been little change over time in the proportion of vouchers and certifications issued to each of the target groups. Table 8 shows the percentage of vouchers issued to each target group between April and December 1980. As can be seen in the table, economically disadvantaged youths have consistently received between 41% and 47% of TJTC vouchers, and students in cooperative education have received between 23% and 29%. Aside from recipients of Social Security Insurance, the other target groups have been receiving between 4% and 10% of the vouchers. Most of the fluctuation in the proportion of vouchers issued to the target groups stems from changing levels of service to cooperative education students, who are served at lower levels during the Summer months when school is not in session.

Table 9 shows the percentage of certifications issued for each of the target groups over the same period of time (April-December, 1980). Economically disadvantaged youths have been receiving about 30% to 37% of the certifications, while students in cooperative education have been receiving between 46% and 53%. Cooperative education students have been receiving a larger share of

TABLE 8: PERCENT OF VOUCHERS ISSUED FOR EACH TARGET GROUP, APRIL-DECEMBER, 1980

Group	Cumulative Through April, 1980	Cumulative Through August, 1980	Cumulative Through December, 1980
Youth	41.5% (162,831)	45.6% (259,142)	47.0% (369,891)
Viet Vets	6.6 (25,722)	7.0 (39,887)	6.7 (53,518)
Ex-Convicts	6.9 (26,880)	7.3 (41,470)	7.1 (56,347)
Handicapped	6.1 (24,001)	6.1 (34,781)	5.7 (46,644)
Coop Youth	29.3 (114,838)	23.5 (133,433)	24.1 (192,218)
Welfare	9.1 (35,679)	10.2 (58,068)	9.6 (76,415)
SSI Recipients	.5 (2,045)	.3 (1,692)	.3 (2,298)
Total	100.0% (391,996)	100.0% (568,473)	100.0% (796,333)

TABLE 9: PERCENT OF CERTIFICATIONS ISSUED FOR EACH TARGET GROUP, APRIL-DECEMBER, 1980

Group	Cumulative Through April, 1980	Cumulative Through August, 1980	Cumulative Through December, 1980
Youth	31.4% (68,082)	36.0% (102,311)	36.7% (149,517)
Viet Vets	4.0 (8,622)	4.4 (12,529)	4.2 (17,074)
Ex-Convicts	4.4 (9,597)	4.9 (13,871)	4.6 (18,529)
Handicapped	5.3 (11,489)	5.7 (16,182)	5.1 (20,947)
Coop Youth	53.0 (114,838)	46.9 (133,433)	47.2 (192,218)
Welfare	1.5 (3,263)	2.0 (5,532)	2.0 (8,273)
SSI Recipients	.3 (711)	.3 (730)	.24 (971)
Total	100.0% (216,702)	100.0% (284,598)	100.0% (407,532)

certifications than they have received of vouchers because cooperative education students must have already been placed in jobs in order to participate in a cooperative education program. With the exception of Social Security Insurance recipients, the other target groups have been receiving between 1% and 6% of the TJTC certifications.

Agency Vouchering and Certification Activities

There has also been little variation over time in the proportion of vouchers issued and certifications obtained by each of the agencies in TJTC's delivery system. Table 10 shows the percentage of vouchers issued by each vouchering agency between April and December 1980. The agencies issuing the most vouchers since TJTC began are CETA Prime Sponsors (19.5%), the Employment Service (46.2%), and schools with approved cooperative education programs (24.1%). Together, these agencies have consistently issued about 90% of all TJTC vouchers. The only other agencies issuing significant levels of vouchers are welfare and vocational rehabilitation agencies.

Table 11 shows the percentage of certifications obtained by each agency during the same period (April-December, 1980). As with vouchering, the most successful agencies (in the sense of obtaining certifications) are CETA Prime Sponsors (11.5%), the Employment Service (35.2%), and cooperative education programs (47.2%).

Although not shown in either Table 10 or 11, it should be noted that the Employment Service and CETA Prime Sponsors are serving mainly economically disadvantaged youth. In Fiscal Year 1980, 74.5% of the vouchers issued by CETA Prime Sponsors and 67.2% by the Employment Service were for the disadvantaged youth target group.

Demographic Characteristics of Participants Served

National data on the demographic characteristics of individuals served by TJTC are available only for TJTC participants not in the cooperative

TABLE 10: PERCENT OF VOUCHERS ISSUED BY EACH VOUCHERING AGENCY, APRIL-DECEMBER, 1980

Agency	Cumulative Through April, 1980	Cumulative Through August, 1980	Cumulative Through December, 1980
CETA	16.7% (65,743)	19.2% (109,179)	19.5% (154,968)
ETA Grantees	.06 (254)	.07 (440)	.15 (1,189)
Vocational Rehabilitation	5.3 (20,605)	5.1 (28,831)	4.6 (36,484)
Cooperative Education	29.3 (114,822)	23.5 (133,420)	24.1 (192,204)
Welfare	3.2 (12,659)	4.6 (25,390)	4.2 (33,582)
Social Security	.1 (392)	.09 (487)	.07 (550)
Veterans Administration	.1 (450)	.12 (665)	.12 (943)
Employment Service	43.9 (172,165)	46.3 (263,147)	46.2 (367,754)
Other	1.3 (4,906)	1.2 (6,912)	1.1 (8,659)
Total	100.0% (391,996)	100.0% (568,473)	100.0% (796,333)

TABLE 11: PERCENT OF CERTIFICATIONS OBTAINED BY EACH VOUCHERING AGENCY, APRIL-DECEMBER, 1980

Agency	Cumulative Through April, 1980	Cumulative Through August, 1980	Cumulative Through December, 1980
CETA	9.6% (20,764)	11.5% (32,623)	11.5% (46,944)
ETA Grantees	.02 (52)	.03 (75)	.03 (139)
Vocational Rehabilitation	4.7 (10,279)	4.9 (13,969)	4.4 (17,718)
Cooperative Education	53.0 (114,822)	46.9 (133,420)	47.2 (192,204)
Welfare	.53 (1,157)	.6 (1,626)	.51 (2,056)
Social Security	.1 (225)	.10 (269)	.07 (300)
Veterans Administration	.1 (209)	.09 (266)	.09 (355)
Employment Service	30.8 (66,652)	34.7 (98,681)	35.2 (143,226)
Other	1.2 (2,542)	1.3 (3,669)	1.1 (4,590)
Total	100.0% (216,702)	100.0% (284,598)	100.0% (407,532)

education student target group. When cooperative education students are excluded, vouchers and certifications were issued predominantly for males between the ages of 19 and 24. Over 40% were issued for minorities.

There have been a few significant changes over time in the demographic characteristics of TJTC participants. Table 12 shows the percentage of total vouchers and certifications issued for Blacks, Hispanics, and veterans (excluding cooperative education students) between April and December 1980. As can be seen in the table, the relative service to Blacks and veterans has declined steadily over time, while service to Hispanics has risen. Our research at the local level provides no explanation for this phenomenon.

Client Response to TJTC

Generally, there has been very little resistance by clients to either vouchering or supplying information for retroactive certification. Employment Service administrators that issue vouchers, as well as people in private firms that have assisted employers in obtaining retroactive certifications for their employees, state that most of the TJTC eligibles are respectful of people in authority and reluctant to refuse to supply information to government agents or employers. Several of the TJTC vendors with whom we talked stated that they had been able to get ex-employees to go to an Employment Service office for certification even when, clearly, these people had little or nothing to gain from their efforts. Overall, resistance to vouchering has been very rare, while resistance to supplying information for retroactive certification, although also rare, has tended to occur in firms where employer-employee relations are strained already.

The question remains, however, as to whether vouchered TJTC participants are using the voucher when trying to develop a job. To our knowledge, no one

TABLE 12: PERCENT OF TOTAL VOUCHERS AND CERTIFICATIONS ISSUED FOR BLACKS, HISPANICS, AND VETERANS, EXCLUDING COOPERATIVE EDUCATION STUDENTS, APRIL-DECEMBER, 1980.*

	VOUCHERS			CERTIFICATIONS		
	APRIL, 1980	SEPTEMBER, 1980	DECEMBER, 1980	APRIL, 1980	SEPTEMBER, 1980	DECEMBER, 1980
BLACKS	36%	35.0%	32.4%	37%	35.0%	32.9%
HISPANICS	8%	8.7%	9.9%	9%	9.6%	11.1%
VETERANS	18%	17.6%	14.3%	14%	14.6%	11.8%

*Percentages for April and September 1980 are based on cumulative vouchers and certifications issued by the end of the months in question. Percentages for December 1980 are based on vouchers and certifications issued only between October 1 and December 31, 1980.

has tracked this aspect of TJTC systematically. But there is evidence to suggest that in many cases TJTC vouchers are not used by TJTC eligibles as a self-marketing tool. Employment Service offices that have experimented with blanket vouchering and self-marketing frequently find large numbers of completed vouchers lying on the ground outside the offices where vouchers are issued. Presumably, if some vouchered participants discard their vouchers immediately upon leaving the vouchering office, still others do so later, and others keep them but never use them. Hence it is probably safe to conclude that, because of client resistance, TJTC has not been adequately tested as a self-marketing aide to employment.

III. ASSESSMENT AND EXPLANATIONS OF TJTC PERFORMANCE

A. INTRODUCTION

As stated in Section I, an adequate assessment of TJTC performance requires consideration of delivery system activity, employer utilization, and impacts on employer hiring, firing, and retention decisions. In examining each of these aspects of TJTC performance, actual results are contrasted with expected results so that it is possible to inform the (sometimes implicit) assumptions underlying TJTC's design--assumptions about the delivery system and employer and client motivations. In the preceding section describing patterns of performance in TJTC, it was shown that the delivery system has implemented TJTC adequately but certainly not optimally, employer participation has been modest and largely through retroactive certifications, the credit is serving predominantly the youth target groups, and the hiring, firing, and retention decisions of participating employers have not been significantly influenced by the tax savings offered by TJTC. In this, the third section of the report, explanations are offered for why TJTC's actual performance has departed from the performance that could be expected from it. The section considers weak implementation by the delivery system, low or at least modest levels of employer participation, unaltered employers personnel decisions, and the effects of implementation on performance.

B. DELIVERY SYSTEM RESPONSE

Productivity

In expecting the delivery system to implement TJTC without significant funding for this purpose, TJTC's designers made their most serious mistake in assuming that TJTC would increase the productivity--the placements achieved per man-hour worked--of the designated vouchering agencies. Although TJTC is a tax credit, it is far from self-administering. Agencies

must locate persons eligible for the credit and document their eligibility. In some states, and particularly for the economically disadvantaged target groups, documentation requirements are severe and place a heavy burden on the vouchering agencies. Likewise, the vouchering process itself takes time, as does certification. And, of course, the tax credit must also be marketed. Since marketing through mass media (at least on the scale to date) does not appear to TJTC implementers to be very effective, face-to-face approaches are required, and they take a substantial amount of time.

In contrast, the payoff in terms of placements from TJTC appear to be fairly small. Most employers simply want their current employees to be certified retroactively, and this does not at all improve the placement rates of the vouchering agencies. To be sure, "blanket vouchering"--vouchering all eligible clients and sending them out to do their own job search--can and does generate placements and certifications, but the staff time devoted to blanket vouchering does not seem to be worth the few certifications obtained. Naturally, therefore, designated vouchering agencies often try to minimize the time they put into TJTC.

Confusion of Agency Responsibility

Another problem in the delivery system established to implement TJTC is the number of agencies involved, the confusion of agency responsibility, and the variation in vouchering procedures across agencies. Although the Employment Service was given responsibility for coordinating the marketing and implementation of TJTC, it was given no authority with which to carry out this responsibility. It is almost useless for local Employment Service offices to try to coordinate the efforts of the other vouchering agencies in their area, because the latter respond to the offices above them in their organizations, not to parallel agencies they compete with at the local level.

And, moreover, even when state Employment Service offices negotiate cooperative arrangements with the other vouchering agencies at the state level, the arrangements are usually too vague to have much meaning at the local level. Consequently, the implementation of TJTC by vouchering agencies at the local level is fragmented and uncoordinated, and the particular combination of agencies that are involved in any given area is usually a function of the interests of local actors.

There are at least two consequences that follow from the uncoordinated nature of the TJTC delivery system. First, there is not much sense of responsibility for TJTC on the part of the various vouchering agencies because no one is clearly in charge. Many of the agencies simply expect the Employment Service to carry the load. Second, vouchering procedures vary across the designated agencies, and employers are faced with what they perceive to be a complicated array of forms. Any employer that wants to participate by hiring from all of the target groups may get several different forms for screening the various groups. If he wants to be efficient, he will himself have to develop a single questionnaire for screening for membership in all of the target groups.

Resistance to New Procedures

In failing to provide significant funding for TJTC's implementation, TJTC's designers also appear to have seriously underestimated the extent to which bureaucracies resist changes in their established procedures. This means simply that productivity is not the only motive of the vouchering agencies, at least at the bottom where most of the actual work with clients and employers is done. Generally, we have found that TJTC managers in the vouchering agencies support TJTC and want to see it implemented, expecting at least some return in placements. At the operational level where vouchering

and job development are done, however, support for TJTC is almost totally absent. Interviewers that conduct the eligibility determination seldom ever know if their clients are actually placed, or whether TJTC made any difference. For them, the vouchering process is just additional work for which they receive no award. The same holds for job developers if most of the certifications are retroactive. Clearly, they are unlikely to be interested in spillover to other programs in which they are not involved, nor are they frequently concerned about their agency's image at some time in the distant future. In short, without clear and strong incentives for implementation, lower level program administrators are unlikely to implement TJTC enthusiastically.

Summary

In summary, there are at least three serious problems in the delivery system established to implement TJTC. First, the system requires a great deal of effort from the vouchering agencies and yet appears to yield few new placements that would not have been obtained without the credit. In other words the costs of implementing TJTC appear to outweigh heavily the benefits to the implementing agency. Second, lines of responsibility and authority in the delivery system are unclear. Seven agencies are involved, but no agency is undisputably in charge. Third, the assumption that designated agencies would implement TJTC in order to increase their placement rates seriously underestimates resistance to changes in procedures at the lower levels of bureaucracies. "Street level bureaucrats," as they are sometimes called, are seldom interested in their agency's overall placement rate, much less in rather intangible results like an improved image in the business community, or spillover to other programs.

C. EMPLOYER RESPONSE

The Tax Savings

In discussing TJTC with employers, one of the views that repeatedly emerges is that the tax savings from TJTC are not large enough to induce employers to alter their hiring practices significantly. Most of the TJTC target groups are not viewed by employers as being as productive as the other people on the labor market looking for entry level jobs, or, in the case of the handicapped and ex-offenders, they may have characteristics that make employers reluctant to hire them.

In contrast, however, the tax savings are fairly small. As previously stated, because an employer's normal deductions for wages must be reduced by the amount of the credit claimed, net TJTC savings depend on the employer's tax bracket. For each eligible employee paid $6000 or more during the first year of employment, savings can range from $900 for an employer in the 70 percent tax bracket to $2580 for one in the 14 percent bracket. Assuming that the employee works 2000 hours per year, the savings for the employer range between $1.29 and $.45 per hour. Given that many employers anticipate lost revenue due to the perceived lower productivity of TJTC target groups, it is not clear from the employer's perspective that participation in TJTC is profitable for many companies, at least participation in the sense of altering hiring practices. Retroactive certifications are another matter, but there are also barriers to employer participation in this form.

Tax Liabilities

Another reason for low levels of employer utilization of TJTC may be lack of tax liabilities by many firms. If firms are not profitable, or if they have dissipated their tax liabilities by charging them to

other tax credits, then they have nothing to gain immediately by participating in TJTC.

In discussing this with employers as a possible reason for modest employer participation in TJTC, we have found some evidence in support of it, but nothing widespread. Moreover, employers in the California Employment Development Department's survey of their Employer Advisory Committees did not mention limited tax liabilities as a barrier to employer participation. And the high levels of employer participation in the New Jobs Tax Credits raises additional doubts that employer participation in TJTC is low because tax liabilities are relatively rare.

One factor undermining the lack of tax liabilities as a barrier to employer participation in employment tax credits generally (TJTC included) is the authorization to carry the credit back three years or forward seven years. Firms can use the credits to recoup taxes paid in the past as well as to save on possible taxes in the future. Since they cannot know in advance what their tax liabilities are likely to be for the next seven years, they may be motivated to participate in TJTC just to be safe.

Employer Attitudes and Hidden Costs

Both employers and TJTC implementers agree that the single most important reason why many employers refuse to participate in TJTC--even by way of retroactive certifications--is fear of the government. This finding is supported by the California Employment Development Department's survey of its Employer Advisory Groups. The fear of government is expressed in various ways: fear of "red tape," fear of government intrusion into hiring decisions, fear of IRS audits, fear of becoming treated like a federal contractor. But regardless of how it is expressed, the fear prevades

the business community and is a major barrier to generating employer participation in TJTC. In effect, it leads employers to conclude that the hidden costs of participating in TJTC are quite high. When these costs are added to the revenues that are estimated to be lost from the perceived lower productivity of TJTC target groups, often they far outweigh the tax savings that TJTC offers.

However, three things need to be emphasized about this conclusion that "fear of government" leads many employers to refuse to participate in TJTC even by way of retroactive certifications. First, as evidenced by the large number of retroactive as well as current certifications that have been obtained, not all employers hold this attitude. Second, employers are unwilling to participate in TJTC even though they are usually quite willing to take advantage of other tax credits, because unlike other tax credits TJTC requires a considerable amount of contact with government agencies, particularly the Employment Service but other vouchering agencies as well. Third, although employers may be familiar with the Internal Revenue Service and indeed may be in contact with the IRS quite regularly, this familiarity does not necessarily eliminate their fear of government. Generally, employers would prefer to limit their contacts with the IRS as far as possible. In short, although not all employers fear government in this sense and many deal with government agencies routinely, many employers would nevertheless like to avoid participation in a tax credit that in their view may require more contact with government than the savings is worth.

Screening Employees and Applicants for Eligibility

Finally, a third and equally serious problem in TJTC, from the employer's perspective, is the difficulty of altering hiring practices even if the employer so desired. Repeatedly, employers have told us that

in their view screening job applicants for TJTC eligibility may be a violation of fair hiring laws, or at the very least expose them to law suits from disappointed applicants. Moreover, screening applicants for eligibility itself requires a commitment of personnel from the employer. People have to be trained to administer a questionnaire, and they must administer it.

The problem in screening applicants and employees for TJTC eligibility largely explains why a number of for-profit firms have begun to sell this service to employers. Significantly, however, often even when these firms do the screening of applicants, employers do not want eligibility determined until after the applicant is actually hired. Employers simply do not want their hiring decisions influenced by the tax credit, although they may desire to take advantage of the tax credit later. Of course, this means that employer hiring decisions are not being affected.

Summary

In summary, there are at least three barriers blocking a positive response to TJTC from employers. First, the tax credit itself is regarded as small and sometimes outweighed by the perceived lower productivity of TJTC target groups, particularly if the employer is in a high tax bracket. Second, employers are extremely skeptical of government programs and as a result assume that the hidden costs associated with participation in TJTC are quite high, higher than the tax savings itself. And, third, employers are reluctant to screen job applicants for TJTC eligibility because they believe this violates fair hiring laws, they do not want to devote personnel time to it, and they do not want their hiring decisions influenced by a tax credit.

D. EFFECTS OF IMPLEMENTATION ON PERFORMANCE

Introduction

There is something of a chicken-and-egg problem in trying to explain why TJTC does not appear to be significantly increasing the private sector employment opportunities of TJTC target groups. On one hand, it might be argued that the employer response to TJTC has been weak, and limited largely to retroactive certifications, because the delivery system has done little to advertise the tax credit and has geared its activities to retroactive certifications in order to achieve quickly numerical goals for certifications. On the other hand, however, it could also be argued that the delivery system has been reluctant to implement TJTC aggressively because the employer response has been weak and, focused as it is on retroactive certifications, has had little impact on the implementing agencies' ability to place their clients. In short, is TJTC's modest performance due to inadequate delivery, or to flaws in the incentives it offers to employers, or both?

One way to address this question is to determine if the employer response to TJTC was relatively positive in sites where implementation was relatively strong, and relatively negative where implementation was weak. However, there are serious limitations in the conclusions that can be reached from this type of analysis. First, it provides explanations only of variation in performance across sites, not the absolute level of performance achieved relative to expected performance. Even in those sites where TJTC has been implemented strongly, with high levels of marketing, blanket vouchering, and efficient responses to employer requests for information, TJTC has failed to generate a strong employer response that focuses on "new" rather than retroactive certifications. And hence it

would be incorrect to conclude that, because employer utilization of TJTC is better in sites where it was implemented strongly, weak implementation was entirely responsible for poor performance, or expected performance could have been achieved if implementation had been better. All that can be concluded, if some variation in performance is attributable to variation in implementation, is that performance might be marginally improved by implementation activities found in sites where the employer response to TJTC is relatively positive.

Second, as in any statistical analysis, questions of causality cannot be answered, although the statistical analysis can inform assumptions that bear on these questions. For example, it may be the case that certain types of implementation are associated with certain types and levels of employer response to TJTC. But this does not necessarily mean that the employer response was in some sense caused by the implementation. It could be the case that the implementation procedures in question were established in response to the way employers participated in TJTC and the types of employers that decided to participate. In some of our sites we have indeed found this to be the case. And the statistical analysis must be informed by this evidence.

The analysis presented here examines the relationship between, on the one hand, implementation variables and indicators of local economic activity, and on the other hand, TJTC performance as measured by the proportion of certifications that are retroactive, and the percentage of planned certifications achieved by the Employment Service within the sites included in the study. These were the only quantifiable performance indicators available in most of our sites, and even they are not as reliable as we would like. The implementation variables included in the analysis are the goals of

program administrators, TJTC administrative procedures, involvement by various groups and organizations, and advertising techniques.

Employment Service Goals

In most of our sites, TJTC implementers in the Employment Service formulated goals for TJTC when they decided how to implement it. In some sites, local offices formulated only numerical goals for certifications and vouchers (or had these goals imposed on them by State Employment Service offices), and wanted simply to achieve these goals. In other sites, administrators developed non-numerical as well as numerical goals, hoping not only to achieve specified levels of certifications, but also increase placements for TJTC target groups, expand and improve relations with employers, and/or develop new or better relations with the other vouchering agencies. Still other sites viewed TJTC skeptically and developed no goals for it at all, even though they may have had numerical goals imposed on them by their superiors. The posture taken by local Employment Service offices toward retroactive certifications also varied across our sites, with Employment Service offices in some sites promoting retroactive certifications, some simply responding to employer requests for them, and some actually discouraging them by making it difficult for employers to obtain them.

As might be expected, these goals do appear to have affected TJTC performance. Table 13 shows the average percentage of certifications that were retroactive, and the average percentage of planned certifications achieved, for the sites broken down by their goals and postures toward retroactive certifications. As shown in the Table, Employment Service offices that discouraged retroactive certifications have a lower precentage of certifications that are retroactive than offices that either encouraged or promoted them. Moreover, it appears that the level of certification goal

TABLE 13: AVERAGE PERCENT OF CERTIFICATIONS RETROACTIVE, AND AVERAGE PERCENT OF PLANNED CERTIFICATIONS ACHIEVED FOR SITES BY VARIATION IN EMPLOYMENT SERVICE GOALS AS OF MARCH 1981*

		% Certifications Retroactive	% Planned Certification Achieved
ES Posture Toward Retroactive Certifications	Promote	76% (8)	87% (4)
	Accept	80% (14)	70% (7)
	Discourage	68% (3)	52% (2)
ES Goals	Numerical Only	76% (12)	55% (7)
	Numerical & Non-Numerical	58% (5)	89% (4)
	No Goals	74% (8)	100% (2)

*N's are in parentheses. N=13 for % planned certifications achieved because only 13 sites could provide both certifications goals and numbers of certifications achieved.

achievement is dependent at least in part on the way Employment Service offices handle retroactives, with the level of goal achievement going up directly as a function of the extent to which Employment Service offices assist employers in obtaining them. Apparently, those Employment Service offices which are achieving or approaching numerical goals for certifications are doing so in part through the issuance of retroactives.

The relationship between TJTC performance and the types of goals held by Employment Service offices is less clear. Those Employment Service offices with non-numerical as well as numerical goals for TJTC experience better TJTC performance than offices in other sites, in terms of having both a relatively low level of retroactive certifications and yet an acceptable level of goal achievement. But Employment Service offices with no goals do well at numerical goal achievement even though they claim not to care about it, while Employment Service offices that claim to want to achieve numerical goals evidence poor performance on this very indicator. All that can be said from this is that, unless TJTC is viewed as a placement tool, performance is likely to be random or at least dependent on contextual factors outside administrative control.

TJTC Administrative Arrangements

TJTC administrative arrangements affect performance modestly, but in predictable directions. Table 14 shows the average percentage of certifications that are retroactive, and the average percentage of planned certifications achieved, for Employment Service offices broken down by their vouchering strategy and their integration of TJTC into other program activities. Predictably, those sites that do little or no client vouchering and focus instead on retroactive certifications experience a high proportion of certifications that are retroactive and do well at achieving planned certification

TABLE 14: AVERAGE PERCENTAGE OF CERTIFICATIONS RETROACTIVE, AND AVERAGE PERCENTAGE OF PLANNED CERTIFICATIONS ACHIEVED, FOR SITES BY ADMINISTRATIVE ARRANGEMENTS AS OF MARCH 1981*

		% Certifications Retroactive	% Planned Certifications Achieved
ES Vouchering Strategy	Blanket	49% (4)	79% (3)
	Selective	74% (17)	69% (9)
	Retro-Certification	85% (4)	90% (1)
Relation to Other ES Programs	Linked	67% (10)	88% (6)
	Not Linked	75% (15)	60% (7)

*N's are in parentheses. N=13 for % planned certifications achieved because only 13 sites could provide both certification goals and numbers of certifications achieved.

levels. Selective vouchering is also associated with a fairly high level of retroactive certifications but with limited goal achievement. The most successful vouchering strategy, in terms of being able to achieve a low level of retroactive certifications and yet a respectable level of goal achievement, is blanket vouchering. From the perspective of Employment Service offices, the extra work involved in blanket vouchering may not be worth the certifications achieved, but it appears that blanket vouchering does generate significant number of new TJTC hires.

Similarly, relatively successful performance is also associated with Employment Service offices that have linked TJTC to their other programs. Usually this linkage is established simply by using TJTC as part of the job development process at least for some clients, although in some cases (California, for example) TJTC is linked not just to the placement process, but to other tax credits and special programs. As shown in Table 14, sites where Employment Service offices established such linkages achieved a high percentage of planned certifications and yet had only an average proportion of certifications that were retroactive. In contrast, certification goal achievement was low and retroactive certifications were high in sites where no linkages were established between TJTC and other Employment Service programs. In these sites, TJTC is usually being used only for retroactive certifications and in response to employer job orders requesting vouchered participants.

Group Involvement

The delivery system established for TJTC encouraged a number of agencies and organizations to coordinate their efforts. Table 15 lists the average percentage of planned certifications achieved, and the average percentage of certifications that were retroactive, for our sites broken down by the level of involvement of a number of agencies and organizations. The Table shows an association between relatively high levels of goal achievement and active involvement by local Employment Service offices, state Employment

Service offices, and private firms assisting employers in obtaining certifications. The proportion of certifications that are retroactive is relatively high where Private Industry Councils and TJTC vendors are active, a predictable finding given that both of these types of organizations have been promoting retroactive certifications. The most successful performance, as measured by low levels of retroactive certifications and yet high levels of certification goal achievement, is found in the two sites where Employment Service involvement is high. In these sites, local Employment Service offices are implementing TJTC enthusiastically, they have integrated it into their placement process, and have marketed it with a variety of advertising techniques.

The surprising finding from the Table is that involvement by CETA Prime Sponsors and community based organizations is associated with low levels of certification goal achievement. Our research at the local levels suggests that Employment Service offices are more likely than Prime Sponsors and community based organizations to view TJTC favorably and use it as a placement tool. The finding in Table 15 suggests that TJTC performance is more successful in sites where Prime Sponsors have given responsibility for TJTC to the Employment Service rather than keeping it themselves. And this may be because Employment Service offices are more likely to implement TJTC enthusiastically and have more experience with direct placement programs than Prime Sponsors.

Marketing Approaches

In our discussions with TJTC implementers at the local level we have frequently heard complaints about the lack of a major, national advertising campaign for TJTC. And yet we have also heard many implementers claim that face-to-face marketing approaches are the only way to "sell" a targeted

TABLE 15: Average Percentage of Certifications Retroactive, and Average Percentage of Planned Certifications Achieved, for Sites by Different Types of Groups Involved As of March 1981*

		% Certifications Retroactive	% Planned Certifications Achieved
ES Involvement	High	38% (2)	100+% (2)
	Medium	73% (13)	76% (5)
	Low	76% (10)	61% (6)
PIC Involvement	Involved	82% (5)	72% (3)
	Not Involved	69% (20)	73% (10)
TJ Vendors	Many	91% (3)	90% (1)
	Some	70% (6)	73% (4)
	None	64% (16)	65% (8)
PS Involvement	Involved	79% (16)	55% (7)
	Not Involved	59% (9)	93% (6)
CBO Involvement	Involved	73% (8)	65% (4)
	Not Involved	71% (17)	76% (9)
State ES Involvement	High	74% (13)	81% (8)
	Low	69% (12)	60% (5)

*N's are in parentheses. N=13 for % planned certifications achieved because only 13 sites could provide both certification goals and numbers of certifications achieved.

employment tax credit. To try to address this apparent disagreement, we systematically investigated the types of marketing approaches used in our sites and examined TJTC performance where different approaches were used.

Table 16 lists the average percentage of certifications that were retroactive, and the average percentage of planned certifications achieved, for the sites broken down by their level of marketing and the types of marketing used. The level of marketing was computed as a scale summing the number of different types of marketing approaches used. In some sites, a number or all of the techniques listed in Table 16 were used, while in other sites none or only one to two techniques were used. As shown in the Table, those sites that used a number of techniques achieved a higher percentage of planned certifications than sites where few techniques were used.

It can also be seen in the Table that performance varies according to the types of approaches used. As many local implementers have argued, face-to-face approaches (contacts during job development, seminars with employers, and direct contacts with accountants and accountant associations) are associated with relatively high levels of certification goal achievement. Mass mailings do not appear to enhance goal achievement very much. And those sites that used mass media to market TJTC evidence lower levels of goal achievement than those sites where mass media were not used. Table 16 also shows that none of the approaches greatly affected the percentage of certifications that are retroactive.

Economic Conditions

It was stated in Section I that, although the number of vouchers issued has risen steadily since TJTC began, the number of certifications slumped during 1981. The explanation offered for this finding was the recession that occurred during 1981; economic activity declined and hence certifications

TABLE 16: AVERAGE PERCENT OF CERTIFICATIONS RETROACTIVE, AND AVERAGE PERCENT OF PLANNED CERTIFICATIONS ACHIEVED, FOR SITES BY VARIATION IN MARKETING APPROACHES AS OF MARCH 1981*

		% Certifications Retroactive	% Planned Certifications Achieved
Level of Marketing	High	71% (11)	86% (6)
	Low	73% (14)	61% (7)
Mass Mailings	Used	68% (8)	73% (5)
	Not Used	74% (17)	66% (8)
Mass Media (Radio, TV, News Papers, Mags.)	Used	75% (8)	57% (5)
	Not Used	70% (17)	82% (8)
Job Development Contacts	Used	71% (15)	81% (6)
	Not Used	73% (10)	65% (7)
Seminars with Employers	Used	73% (13)	79% (7)
	Not Used	70% (12)	65% (6)
Accountants Contacted	Yes	68% (13)	84% (8)
	No	76% (12)	54% (5)

*N's are in parentheses. N=13 for % planned certifications achieved because only 13 sites could provide both certification goals and numbers of certifications achieved.

declined also. However, data on the relationship between economic activity and TJTC performance in our sites suggests the relationship may be more complicated than this.

Table 17 shows the average percentage of certifications that were retroactive, and the average percentage of planned certifications achieved, for our sites broken down by their unemployment rates, and their level of business response to TJTC as perceived by TJTC implementers in the Employment Service and CETA Prime Sponsors. The relationship between TJTC performance and subjective indicators of business response is as expected, with the percentage of certifications that were retroactive declining and certification goal achievement improving as business response moves from weak to strong. But the relationship between performance and unemployment runs somewhat counter to expectations. The percentage of certifications that are retroactive is relatively high, and the level of goal achievement is relatively low, when unemployment is either very low or very high. One possibly valid explanation for this curvilinear relationship is that high unemployment is associated, as suggested in Section I, with reduced employer hiring which suppresses employer participation in TJTC, while low unemployment is associated with reduced employability among the TJTC target groups, which also suppresses employer participation.

Summary

The findings from this analysis provide support for the view that weak implementation of TJTC has hurt TJTC's performance. Sites where TJTC has been marketed with a variety of approaches, integrated into other programmatic activities, used as a self-marketing tool for job development by TJTC eligibles, and implemented with the active participation of a number of agencies evidence positive performance in the sense of having both relatively low proportions of certifications that are retroactive and yet relatively

TABLE 17: AVERAGE PERCENTAGE OF CERTIFICATIONS RETROACTIVE, AND AVERAGE PERCENTAGE OF PLANNED CERTIFICATIONS ACHIEVED, FOR SITE BY VARIATION IN BUSINESS ACTIVITY AS OF MARCH 1981*

		% of Certifications Retroactive	% of Planned Certifications Achieved
Business Response	Weak	81% (5)	52% (2)
	Moderate	73% (15)	69% (7)
	Strong	59% (5)	89% (4)
Unemployment Rate	0 to 6.0%	78% (5)	42% (3)
	6.1% to 8.5%	67% (15)	80% (9)
	8.6%+	79% (5)	+64% (1)

*N's are in parentheses. N=13 for % planned certifications achieved because only 13 sites could provide both certification goals and numbers of certifications achieved.

high levels of certification goal achievement. Of course, the question remains as to whether such implementation is perceived by TJTC implementers to increase productivity (placements achieved per person hour worked) enough to warrant the staff time and effort required by it. Our research has found that in many cases TJTC is perceived to reduce productivity and hence is not implemented aggressively for that reason. Moreover, it is not clear that implementation of this sort could raise TJTC performance to expected levels. Even in those sites where implementation was quite strong, retroactive certifications were nevertheless a large proportion of the certifications issued. All that can be concluded is that TJTC performance would probably be marginally improved by increased efforts on the part of the delivery system.

E. SUMMARY ASSESSMENT

Returning to the three aspects of performance that must be considered in evaluating TJTC--delivery, employer utilization, and effects on employer behavior--the following conclusions are warranted by our research:

1. In large part the delivery system for TJTC has not used TJTC as a placement tool. TJTC performance was hurt to some extent by weak implementation as well as client resistance to using vouchers as an aid in job development.

2. Employer participation in TJTC has been modest and has focused on retroactive certifications rather than "new" TJTC hires.

3. Except for those cases where employers have placed TJTC job orders with the Employment Service or referred job applicants to agencies for vouchering prior to making the hiring decision, TJTC has not significantly affected employer hiring, firing, and retention decisions or increased either employment opportunities for TJTC target groups or placements rates for most agencies in the delivery system.

To explain these findings, a number of TJTC's assumptions about delivery system and employer motivations and capabilities must be revised. With regard to employers, it must be concluded that they perceive the hidden costs of targeted employment tax credits and the costs due to the relatively low

productivity of certain target groups to be quite high; and they are very often either fearful of, or unwilling to, alter their hiring practices so as to use target group eligibility as a criterion in their decisions. Both of these factors make retroactive certifications more attractive to employers than "new" TJTC hires. With regard to the delivery system, many of the vouchering agencies perceive the costs of implementing TJTC to be greater than the benefits obtained in placements, in large part because employers are participating by way of retroactives; lower level personnel in these agencies are seldom motivated to improve the quality of their placements, or the image of their agencies; and coordination among agencies is unlikely without clear lines of authority and accountability. In the next section of this report, policy alternatives and their predictable performance are presented in light of these revised assumptions.

IV. IMPLICATIONS

A. INTRODUCTION

The pattern expected for TJTC delivery and employer utilization has not been achieved, and hence it would be premature at this point to conclude that TJTC as it now exists adequately tests the targeted employment tax credit concept. Although TJTC is not altering many employers' hiring practices or being used extensively as a placement tool by the delivery system, this does not mean that self-marketed employment tax credits cannot, in principle, increase employment opportunities for targeted individuals. TJTC simply does not test the concept, because most employers are participating in TJTC through retroactive certifications for their current employees, and the delivery system, in large part responding to this mode of employer participation, is not using TJTC as a self-marketing aid for their clients. Until the expected pattern of delivery and employer utilization--self-marketing by vouchered clients, and "new" TJTC hires by employers--is achieved, conclusions cannot be reached about whether this performance pattern would produce its desired impact of improving target group employment.

There are several positive results from TJTC that deserve attention lest the policy "baby" of targeted employment tax credits be thrown out with the TJTC bathwater. First, relative to other targeted employment tax credits, the level of employer participation in TJTC has been quite high. If retroactive certifications are excluded, TJTC still produced over 200,000 new TJTC hires in its first 19 months of operation, 55,000 of which were outside the cooperative education target group. In contrast, probably because it has a smaller universe of eligible clients, the WIN tax credit has authorized only between 35,000 and 53,000 tax credits each year between 1977 and 1980. Second,

there is some evidence to indicate that about half of these 55,000 "new" hires in TJTC (outside the cooperative education target group) reflect at least a marginal adjustment in employer hiring practices, since about half of "new" TJTC hires come from either employer requests for TJTC eligible referrals, or "reverse referrals" where employers refer job applicants to agencies for vouchering prior to making their hiring decision. Third, the cost of implementing TJTC have been very low, and yet the delivery system has responded well in issuing large numbers of vouchers, retroactively certifying eligible employees, and disseminating information. To be sure, implementation could have been more extensive and aggressive, but it could not have been less expensive.

In this, the conclusion of the report, policy options will be discussed that might be expected to alter TJTC delivery system procedures and employer utilization to produce self-marketing by clients and "new" TJTC hires from employers. It must be left to future research on a revised system to determine if such a performance pattern would have the desired impact of increasing target group employment.

B. ADJUSTMENTS FOR PRODUCING DESIRED PERFORMANCE

Policy Options Being Considered

TJTC implementers at both the local and the national level have called for one of two extensive changes in TJTC, depending on whether they blame the delivery system or the tax credit itself for TJTC's modest performance. Some of those that blame the delivery system have recommended increased funding for TJTC administration on the assumption that employers are not claiming Targeted Jobs tax credits in high numbers because the delivery system has not adequately marketed TJTC or used TJTC as a placement tool. In contrast, some of those that blame the tax credit--the mix of incentives and requirements designed to

alter employer behavior--have recommended increasing the tax savings offered to employers and loosening target group elibibility criteria as a way to increase employer credit-claiming in TJTC. Our research indicates, however, that neither of these changes in TJTC, if only one of them is made, would produce its intended effect of increasing target group employment.

An increase in funds for administering TJTC would probably generate a marginal increase in vouchering by the delivery system. But in all probability increased vouchering by the delivery system would not shift employer participation from retroactive certifications to "new" TJTC hires, since the retroactive mode of participation is usually preferable from the employer's perspective. Moreover, it is unlikely that increased funding for TJTC administration would efficiently increase vouchering. Our research has found that the delivery system is less responsive to resources and policy directives from the national level, than to employer utilization of TJTC and its effects on performance indicators related to organizational survival and internal promotion. If employers continue to participate in TJTC through retroactive certifications, the delivery system would probably remain reluctant to issue vouchers regardless of increased funding, and additional funds for administering TJTC would probably be diverted to more productive agency activities or absorbed as waste.

Similarly, an increase in the tax savings offered to employers and loosened target group eligibility criteria would probably generate an increase in employer credit-claiming in TJTC. But it is doubtful that such changes in TJTC would increase employment opportunities for targeted individuals, since employers would still have the option of obtaining retroactive certifications, which are more attractive to them than "new" TJTC hires. So long as the retroactive certification option is available, any increase in employer credit-claiming

stimulated by alterations in the tax credit's design would probably remain predominantly retroactive. It is unlikely that "new" TJTC hires would increase more than proportionally, or that retroactive certifications would either reflect or lead to alterations in employer hiring practices.

In contrast, two less extensive alterations in TJTC, when made together, would probably produce the performance pattern TJTC's designers expected it to produce originally. These changes are a targeted increase in funds for administering TJTC, or at least a redistribution of existing administrative funds, and elimination of the retroactive certification option. Elimination of the retroactive certification option is required if many employers are to be expected even to consider making "new" TJTC hires. From the employers' perspective, participation through retroactive certifications is highly preferable to making "new" TJTC hires. But from the perspective of increasing employment opportunities for TJTC target groups, retroactive certifications are of little, if any, value. Eliminating this option would at least give the self-marketing concept a chance, if self-marketing can be implemented.

The implementation of self-marketing by vouchered TJTC participants requires redirection of the delivery system from its selective vouchering strategy toward motivation of clients to use the vouchers when seeking employment. There are several ways in which these changes in delivery might be promoted, some ways more expensive but probably more productive than others. An inexpensive approach would be to redirect all funds currently being used for mass advertising from this approach to what might be called "client advertising," where clients are given instructions on how to use the vouchers, and packages describing TJTC are provided to clients to use during job search. A more expensive approach would be to authorize a modest increase in TJTC administrative funds for this purpose as well as blanket vouchering. The latter

would probably not continue unless employers began making "new" TJTC hires, but, with the option of retroactive certifications eliminated, there is a good chance they would do this and that the dialectic of new hires and increased vouchering would begin. Finally, a much more expensive approach would be to tie TJTC directly to a self-directed placement program for teaching clients how to conduct job search and use the voucher, and monitoring their efforts.

Reasons for Expecting Desired Performance

Given our findings about why many employers are reluctant to claim Targeted Jobs tax credits or alter their hiring practices, there is only a modest chance that TJTC would increase employment opportunities for targeted groups even if the retroactive certification option were eliminated and the delivery system were redirected toward blanket vouchering. But the chance cannot be excluded as a reasonable possibility. The major obstacles to employer utilization of TJTC are the perception on the part of many employers that TJTC target groups are less productive than other workers, the employers' desire to minimize contact with government agencies, and the difficulty employers have in altering their hiring practices even when they so desire.

The perception that targeted groups are less productive than other workers probably cannot be overcome in the short run. And hence at best a targeted employment tax credit is going to stimulate only very marginal alterations in employer hiring practices. In other words, only those employers that normally hire from groups "close to" the targeted groups are going to adjust their hiring practices to take advantage of the tax credit even if the other barriers to employer credit-claiming are removed. Although tax savings and target group criteria can be adjusted to generate increased credit-claiming, there are definite limits to how far and how frequently employer hiring practices

can be influenced by targeted employment tax credit, since at some point increased savings will dissipate employer tax liabilities entirely so that further deductions will not be usable, while eligibility criteria require less behavioral changes the looser they become.

However, elimination of the retroactive certification option and redirection of the delivery system might overcome the other two barriers to employer credit-claiming and changes in hiring patterns--fear of government and difficulty in altering hiring practices. These barriers exist because in most cases employers wishing to make "new" TJTC hires have either had to contact the Employment Service for TJTC referrals, or do the screening themselves and refer eligible applicants to one of the designated agencies for vouchering. If large numbers of vouchered clients were presenting the voucher when applying for jobs, then employers would not have to screen for eligibility themselves beyond differentiating between vouchered and non-vouchered applicants. And they would also have to contact the vouchering agencies only for certifications, not for the initial eligibility determination (voucher) too. In other words, there may be, so to speak, a "critical mass" or level of self-marketing by vouchered clients that must be achieved before employers will find it feasible and in their view "safe" to alter their hiring practices. TJTC is the first targeted employment tax credit with a large universe of eligibles--perhaps large enough to provide the "critical mass" needed to achieve this effect--but because there has been little blanket vouchering as well as resistance by vouchered participants to using the voucher during job search, this critical mass has not been achieved and the possibility that it would produce these effects has not been tested.

Summary

In summary, TJTC does not test the targeted employment tax credit concept because large numbers of vouchered participants have not been delivered (and

have not delivered themselves) to employers, and employers have participated in TJTC predominantly by way of retroactive certifications. Both of these problems in TJTC stem largely from the TJTC legislation, not from administrative arrangements established by the Department of Labor. And to a large extent the problems are reciprocal in nature. Because employers make few "new" TJTC hires, TJTC implementers are reluctant to voucher large numbers of TJTC eligibles and push them to use the voucher as a marketing tool; but, to some extent, employers are making few "new" TJTC hires because the limited availability of TJTC vouchered clients seeking jobs means that, for employers to claim TJTC by making "new" TJTC hires, their level of involvement with the government must be high or they must screen for TJTC eligibility themselves, factors that make retroactive certifications far preferable to "new" hires. Elimination of the retroactive certification option would probably increase the frequency with which employers make "new" TJTC hires, but their willingness to make these hires and alter their hiring practices probably depends also on the extent to which vouchered TJTC eligibles come to them seeking jobs and presenting the voucher. Hence, alterations in both the tax credit's design and its delivery are probably necessary if the desired pattern of TJTC performance is to be achieved.

This is not to say, however, that other alterations in TJTC should not be considered, only that our research suggests that the alterations most important to producing self-marketing by TJTC eligibles and "new" TJTC hires by employers are elimination of the retroactive certification option and redirection of the delivery system toward blanket vouchering and motivating clients to use TJTC vouchers during job search. Other changes in TJTC worth considering include increasing the tax savings offered, redefining the target groups so that the most disadvantaged members of the labor force are served, and centralizing TJTC administration in a single agency.

C. CONCLUSION

TJTC as it now exists is not achieving its intended results, in terms of either delivery, employer utilization, or alterations in employer hiring patterns. There is a reasonable chance that a redirection of TJTC administrative funds together with elimination of the retroactive certification option would produce the desired pattern of delivery and employer utilization. But there is no guarantee that this would yield the desired impact of increased employment opportunities for the targeted groups. All that can be concluded is that it might.

Footnotes

[1]John Bishop, "The Design of Employment Subsidies--Lessons of the U.S. Experience," mimeo, Presented at The 36th Congress on Public Finance and Public Employment, International Institute of Public Finance, Public Finance and Public Employment, XXXVIth Congress, Jerusalem, August 25-29, 1980, p. 5.